

South Korea Cabinet ministers replaced

By Steven B. Butler in Seoul

THE PRESIDENT of South Korea, Mr. Chun Doo-hwan, yesterday replaced eight ministers in his 22-man Cabinet in a major reshuffle affecting mainly economic portfolios.

Mr. Kim Mahn-Je, Minister of Finance, has been appointed to the powerful position of Deputy Prime Minister in charge of economic planning, replacing Mr. Shin Byong-Hyun. The Deputy Prime Minister plays a key role in formulating the country's economic policy. Mr. Kim has been named, principal architect of financial liberalisation in South Korea, and his appointment is not expected to mark any great departures in policy.

The Cabinet reshuffle had been expected for many months, and may have been delayed in an effort to show continuity at a time when South Korea's economic performance has been sluggish. South Korea's GNP is thought to have grown at less than 5 per cent last year, compared with an original target of 7.5 per cent. Exports last year totalled \$30.15bn, an increase of just 3.1 per cent, which is Korea's second worst performance in more than 20 years, and 2.85bn short of the original target.

Mr. Chung In-Young, director of the Office of Bank Supervision and Examination, has replaced Mr. Kim as Minister of Finance. Mr. Chung is a career government official.

Mr. Choi Chang-Nak, governor of the Bank of Korea, has been appointed Minister of Energy and Resources, while Mr. Chon Hak-Ze, director of the Korea Advanced Institute of Science and Technology, has been appointed Minister of Science and Technology.

Mr. Park Sae-Jik, a retired general who has been Minister of Government Administration, will become the new Sports Minister. The outgoing Minister, Mr. Lee Young-Ho, had come under criticism over the handling of negotiations for broadcast rights for the 1988 Olympic Games. The final contract with NBC, which had been originally expected, and a large deficit for the games is now expected.

Nine killed in three days of Sikh violence

At least nine people have been killed in "gun attacks" in the northern Indian state of Punjab during the past three days during a marked increase in violence by Sikh extremists, John Elliott reports from New Delhi.

The Indian Government has ordered the Punjab state government which has been run by the Sikh Dal Party since regional elections were held three months ago, to strengthen security operations against the extremists.

Pretoria steps up pressure on Botswana over ANC

By Tony Robinson in Johannesburg

MR. PIR BOTHA, the South African Foreign Minister, yesterday stepped up the pressure on Botswana to take action against African National Congress (ANC) guerrillas allegedly operating from its territory.

His latest statement on the border situation, as South African police announced they had killed a suspected ANC activist near East London and found a large quantity of Soviet-made arms in the vehicle he was driving.

In a broadcast on South African radio Mr. Botha yesterday warned Botswana that "if our security forces can identify targets I have no doubt they will not hesitate to take the necessary action as long as the Botswana Government does not take effective action to eliminate the menace."

This thinly veiled warning of a possible military strike in the aftermath of last Saturday's landmine explosion which killed two whites 3 km from the Botswana frontier followed an official letter of protest sent to the Botswana Government on Monday night.

The possibility of military action, similar to the lightning



Mr. Yitzhak Shamir

Shamir set to accept Taba deal

By Tony Walker in Jerusalem

MR. YITZHAK SHAMIR, Israel's Deputy Prime Minister, appears ready to accept terms for a settlement with Egypt of the vexed Taba dispute in the Sinai.

Mr. Shamir, who is also Foreign Minister, has agreed in principle with Mr. Shimon Peres, the Prime Minister, that a draft package of measures to resolve the Taba issue be presented to the inner Cabinet, possibly as soon as next week.

Israel's Foreign Minister has opposed to Egyptian demands that the Taba question be settled by international arbitration, insisting instead it be dealt with by negotiation.

A compromise appears to have been struck that would allow a mix of conciliation and arbitration, plus guarantees of access for the Israel to Taba, a narrow strip of land on which an Israeli company has built an hotel.

Israel hung on to Taba, which measures about one square kilometre when it handed the rest of Sinai back to Egypt in 1981 under the terms of their 1979 peace treaty.

The draft package agreed by Egyptian and Israeli negotiators provides for a process of conciliation and if that fails resolution of the dispute by arbitration. Access terms for the Israel would be negotiated before conciliation and arbitration process began.

Other elements of the package in return its ambassador to Tel Aviv, withdrawn in 1982 in protest at Israel's invasion of Lebanon, and also to the implementation of various commercial and cultural arrangements frozen for the past several years.

An Egyptian policeman, Mr. Soliman Khater, 25, sentenced to life imprisonment for killing seven Israeli tourists in Sinai last October, was found hanged in a hospital yesterday, Cairo Defence Ministry officials said, Reuters reports.

Military prosecutors began immediate investigation.

Kurds expand area of guerrilla operations

Gwynne Roberts several times watched Kurdish guerrillas in action against government troops during his extended visit to northern Iraq. In the second of two articles he recounts one such attack and assesses its implications. His first article appeared yesterday.

Under the terms of the ceasefire, the Iraqi base would be forced to withdraw. Its position was too vulnerable.

Compared with the major set-pieces in the Gulf war, such operations are, of course, minor. Yet their cumulative impact is substantial. With their forces stretched to cover the front with Iran, the Iraqis have been forced to conduct a holding operation in Kurdistan, and seem powerless to stem the Kurdish advance.

So far, the Iraqis have managed to retain a firm grip on the major towns and roads of Kurdistan during the day; at night, however, their control is far more tenuous. The Kurds operate with apparent impunity within a few kilometres of many towns and just a few hundred metres off the main highways.

The guerrillas openly visit villages in daylight which are within sight of the roads and nearby Army posts.

Inside the towns, Kurdish clandestine units appear to be proliferating. They provide food and refuge for strike units; are a source of intelligence, weapons and even explosives, and involved in kidnappings and assassinations. Often, those involved have Government jobs and, superficially at least, are beyond reproach. Their function as a fifth column, and if caught, face immediate execution.

When I visited Kurdistan four years ago, much of the travelling was done at night tucked in close to the Turkish frontier. This time, my journey was completed during the day. In contrast to 1981, the

guerrillas seemed unworried by the possibility of attack by helicopter gunships. We travelled with a heavy machine gun strapped to a mule for protection.

"We know that their pilots are terrified of their machines being hit by anything larger than a Kalashnikov bullet," said one of my companions. "Gunships are no longer a problem as far as we're concerned."

Civilians have played an important part in the comeback by the Kurdish Democratic Party guerrillas. Four years ago, a desolate landscape was full of destroyed villages, but now there are thriving communities, with crops growing in the fields and animals grazing on the mountains.

Existing villages have been enlarged to cope with the new influx of families from the "protected" compounds set up by the Iraqis in 1977 near the main roads. These were designed to deny the guerrillas support from the villagers, and their inhabitants were kept under watch.

Even Kurdish areas close to the Turkish border, lands designated free-fire zones in 1976, have been repopulated. These communities now provide solid backing to the guerrillas who receive food, shelter and even military support in the form of armed militias.

The Government, however, has taken a harsh line on public services in these "sensitive" areas. Outside the town, medi-

cal clinics have been closed, along with around 800 village schools. Children from the countryside are refused access to education in the main urban centres. The guerrillas are ill-equipped to provide their own teachers as they did in 1974-75.

The Kurds' main success has come on the battlefield. In the mid-seventies, they became involved in a head-on confrontation with the Iraqi Army, and with a force of more than 100,000 men were forced to defend largely static fronts.

The guerrillas now concentrate on guerrilla warfare, and have rejected Iranian attempts to involve them in massed frontal attacks.

One consequence is that the Kurds measure their fatal casualties since the Gulf war started in the hundreds—not hundreds of thousands. They do provide Iran with scouts and vital field intelligence.

Kurdish territorial gains have been far greater than those of the Iraqis, who secured three footholds in Iraqi Kurdistan in 1983. But over the next 12 months, this will almost certainly change.

The Kurds will by then have cut a road half way across Kurdistan, and military supplies will take days, not weeks, to reach the front. The Iraqis will be on hand to reinforce any Kurdish advances in this sector. The Iraqis will be forced to commit more resources to the north, and the Kurds will attempt to tighten the screw, if possible, to breaking point.

Philippine officers to fight poll fraud

By Samuel Senoren in Manila

DISSATISFIED officers in the Philippine's armed forces yesterday launched an unprecedented campaign to ensure a free and fair presidential election on February 7.

The officers, who come from the so-called Reformist Movement within the armed forces, said they would conduct a nationwide information drive against fraud and coercion. They warned that fraud would lead to widespread violence.

Their announcement was made a day after presidential candidate Mrs. Corason Aquino pledged to revamp the armed forces and retire "overstaying" generals if she assumed power.

A number of officers in the Reformist Movement in line for promotion to general, can not move up because President Ferdinand Marcos, who is Commander-in-Chief, has retained generals who are past retirement age.

The Reformist Movement sought the retirement of about 37 generals when it emerged last year during Armed Forces Chief General Fabian Ver's trial for the murder of opposition leader Mr. Benigno Aquino.

General Ver, who is past retirement, was acquitted last month.

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UK backs Lagos on debt

By Michael Holman

SIR GEOFFREY HOWE, the British Foreign Secretary, yesterday offered "all possible" assistance to Nigeria in its efforts to resolve its external debt problems in the course of a two-hour meeting in London with Prof. Bolaji Akintoye, the country's Foreign Minister.

The meeting, described by a Foreign Office spokesman as "friendly and businesslike," will be followed up today with a further round of talks with Sir Geoffrey, Mrs. Margaret Thatcher, the Prime Minister, and Mr. Leon Brittan, the Trade and Industry Secretary, as well as Treasury officials.

The spokesman said that Sir Geoffrey recognised the importance of Nigeria's New Year budget, and

stressed Britain's "continuing determination" to assist Nigeria "in solving problems of debt."

The Nigerian Government has said that it will seek rescheduling of its medium- and long-term debt despite the absence of an agreement with the International Monetary Fund (IMF), which is normally a precondition to such a step.

The New Year budget, however, has been seen by Western bankers as a significant step towards narrowing differences with the Fund over terms for a \$2.5bn loan. Among other measures, the budget slashed the subsidy on domestic petroleum while President Ibrahim Babangida pledged the adoption of "a realistic" exchange rate policy.

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Payment will be made in U.S. dollars on and after January 30, 1986 upon presentation and surrender of the above Notes with coupons due April, 1986 and subsequent coupons attached, subject to applicable laws and regulations, either (a) at the office of the Fiscal and Paying Agent in New York, or (b) at the main office of Morgan Guaranty Trust Company in London, Brussels, Frankfurt am Main and Paris, the main office of Swiss Bank Corporation in Basel, the main office of Morgan Bank Nederland N.V. in Amsterdam and the main office of Kredietbank S.A. Luxembourg in Luxembourg. Payments at the office of any paying agent outside of the United States will be made by check drawn on, or transfer to a United States dollar account with a bank in the Borough of Manhattan, City and State of New York. Any payments made by transfer to an account maintained by the payee with a bank in the United States may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding at a rate of 20% if payee not recognized as exempt recipient fails to provide the payee's taxpayer identification number (employer identification number or social security number, as appropriate). Those holders who are required to provide their correct taxpayer identification number on Internal Revenue Service Form W-9 and who fail to do so may also be subject to a penalty of \$50. Please therefore provide the appropriate certification when presenting your securities for payment.

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UK NEWS

WEAK OIL PRICES OVERHANG BUDGET STRATEGY TALKS

Ministers assess scope for tax cuts

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

MR NIGEL LAWSON, Chancellor of the Exchequer, and other Treasury ministers are assessing the impact of falling oil prices on the scope for tax cuts in his March budget.

In two days of talks this weekend the ministers will also review next year's public borrowing plans and how the remaining room for tax cuts should be allocated.

Treasury officials insist that no firm decisions will be taken at the meeting, but with the budget expected in early March the talks will provide the framework for the more detailed planning over the next two months.

Other measures likely to be discussed include whether to abolish the remaining stamp duty on share transactions. The duty was reduced from 2 to 1 per cent in the 1984 budget. A recent Bank of England report underlined the beneficial impact on private share ownership.

The backdrop to the meeting is not the most auspicious. Concern over a further weakening in oil prices has pushed sterling down to record lows against the D-Mark and provoked concern in financial markets about a possible rise in interest rates.

The drop in expected revenues from the North Sea has also significantly reduced the scope for possible tax cuts.

The Government's medium-term strategy envisaged tax cuts of £3.5bn this year, but many City of London analysts believe that that figure has already been reduced to less than £2bn. Ministers will also have to consider whether the envisaged borrowing target of £7.5bn for 1986-87 should be reduced to take account of its increased privatisation programme.

Mr Lawson's advisers appear to believe that there is a strong case for lower borrowing to offset an extra £2.5bn of asset sales but there is also a countervailing argument that

borrowing might be increased to take account of lower oil revenues. Officials in Whitehall insist that no decision has yet been made on whether the available cash should be used to raise the thresholds at which income tax becomes payable, or to cut the basic rate from the present 30 per cent.

The Treasury is planning to publish its public spending White Paper (policy document) on January 15. It will show the same overall spending limits as shown in last November's Autumn Statement, but will include for the first time detailed limits for departments' running costs.

Tobacco curbs pledged

By Kevin Brown

A FUTURE Labour government would ban sponsorship of sporting events by tobacco companies and all advertising of tobacco products except at the point of sale, Mr Frank Dobson, the opposition spokesman on health, said yesterday.

Mr Dobson, speaking at a conference on the politics of tobacco organised by the British Medical Association, said the Government was inhibited by commercial pressures from acting against an epidemic which was killing 100,000 people a year.

He said it was inconsistent of the Sports Council and the governing bodies of individual sports to link sporting exercise and health in pursuit of public subsidies while also seeking sponsorship by tobacco companies.

"As there seems little prospect of them acting responsibly and consistently, the next Labour government will prohibit the sponsorship of sporting events by tobacco companies," he said.

Mr Dobson said that in the meantime the BBC should stop televising sporting events sponsored by tobacco companies. He said it was hypocritical for the corporation to oppose advertising on BBC television while providing the cigarette companies with hundreds of hours of free publicity in the guise of soccer and cricket coverage.

The MP said a ban on tobacco advertising except at the point of sale was essential to prevent advertisers from appealing to young people.

"Tobacco has no future unless it can capture new, young smokers. After all, it is killing 100,000 of its existing market each year. It has to recruit young people just to stand still. Whatever the tobacco promoters may say in public, their advertising is aimed at getting new smokers," he said.

Mr Dobson said the Government should strengthen the health warning on tobacco products.

UK leads opposition to draft directive on parental leave

BY JOHN LLOYD, INDUSTRIAL EDITOR

TIME OFF FOR PARENTS IN EEC

France: Leave guaranteed by law. It can be taken either as unpaid leave or half-time leave up to a maximum of two years. It applies to public and private sectors but companies with fewer than 100 employees can refuse on certain conditions. Time off for family reasons is guaranteed after three months' service.

Each worker is entitled to two days off for the death of a spouse or child; one day off for death of parent or sibling; one day off for wedding of son/daughter; four days off for own wedding.

West Germany: No statutory rights in private sector, but public sector allows three years of unpaid leave. Article 616 of the Civil Code allows workers leave for "essential periods of time" for family reasons. A man or woman can take up to five days off a year

with sick pay to look after an ill child.

Italy: Parental leave guaranteed under a law of December 1971 (mothers) and December 1977 (fathers). Either may take up to six months during first year of a child's life, receiving 30 per cent of pay from social security. Rights apply to public and private sectors. Most employees are entitled to 10 to 30 days when they marry.

Netherlands: No statutory rights to parental leave but Civil Code allows one day's paid leave for family obligations, two days for the birth of a child and four days for a family death.

UK: No statutory rights to parental leave or leave for any family reason, but most agreements allow special leave and it is granted at managerial discretion. Source: European Industrial Relations Review

agreement or by managerial discretion. The variation is substantial - although in recent years the Mediterranean countries have been following the trend by introducing statutory requirements.

If implemented - and other countries besides the UK have doubts, although none has expressed them so forcefully - the directive would force the UK, Ireland and the Netherlands to change current practice substantially.

Thatcher holds crime seminar

BY KEVIN BROWN

MORE THAN 50 leading public figures will meet in London today for a seminar chaired by Mrs Margaret Thatcher, the Prime Minister, as part of a government campaign against crime.

The seminar is intended to explore new ways of tackling violence, burglary, crime in the work place, and theft from vehicles. A separate session on drug abuse is to be held next week.

In a statement yesterday Mrs Thatcher said the Government had already strengthened the law and the criminal justice system and would not hesitate to take whatever further action was required.

She said the Public Order Bill, which will have its second reading in the House of Commons on Monday, reflected the Government's determination to see that crime did not pay, but the court and police required the close co-operation of the community.

Mrs Thatcher is expected to be joined at the seminar at her Downing Street residence by five Cabinet ministers, including Mr Douglas Hurd, the Home Secretary.

Other participants will include Sir Terence Beckett, director general of the Confederation of British Industry (CBI), Mr Norman Willis, general secretary of the Trades Union Congress (TUC), Sir Kenneth Newman, the Metropolitan Police Commissioner, and the chairman of the local government associations. The Government would make a statement in the House of Commons next week on Lord Roskill's report on the use of jury trials in fraud cases, which is expected to be published on Friday, Mr Hurd said yesterday.

DEC plans to employ 900 extra workers

By Jason Crisp

DIGITAL Equipment (DEC), the world's second largest computer company, said yesterday it expected to create 900 jobs in the UK this year, including 400 at its Scottish microchip plant announced last August.

The new jobs were announced as Mr Leon Brittan, Trade and Industry Secretary, officially opened DEC's £35m research and development centre in Reading, Berkshire.

The company said it was to spend £22m on a distribution and warehouse network in the UK.

DEC employs 4,600 people in the UK. Mr Geoff Shingle, managing director of DEC UK, said yesterday: "We have found Britain is an excellent base from the viewpoint of skills, inventiveness and technical expertise. That is why we have invested heavily here and this new centre reaffirms our presence."

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So who'll be at the controls?

The short answer is, we will.

If you vote in favour of the new proposals from Sikorsky (a division of UTC) and Fiat, as your Board urges you to do, Westland will remain an independent British company.

Free to develop, design and build helicopters in Britain.

Sikorsky and Fiat will become valued and trusted partners, but only minority shareholders.

Together they'll own no more than 29.9%, and this could drop to 21%.

Thriving, independent companies themselves, they are backing Westland's long-term prosperity.

We are convinced that their proposals, though similar in financial terms to those of the European consortium, are better for our company, our shareholders and our workforce.

In view of the vast amount of public comment, we would like to give you our main reasons once again.

A tried and tested partnership.

As you probably know we have, in fact, been working successfully with Sikorsky for a long while.

Over the last thirty-eight years we have built the Dragonfly, Whirlwind, Wessex and Sea King helicopters under licence from them.

Often, as they have been kind enough to admit, improving them.

(We're proud to say, our version of the Sea King outsells theirs in export markets.)

We get on well together, we know each other and we build very good machines together.

An association with Fiat is a further important benefit in our view.

They are a large, profitable and international group with interests in aviation, space and materials technology.

Furthermore, many of their interests dovetail with ours.

This will give us opportunities to strengthen our technological capabilities and open up new markets.

Moreover, Westland and Fiat are two of Europe's leading helicopter transmission manufacturers.

By contrast, the proposals of the European group aren't nearly so appealing.

A marriage of inconvenience.

Frankly, the consortium seems to be an ad hoc grouping of companies, some of which are state-owned and fierce competitors of ourselves and each other.

The truth is, there's a glut of helicopters in Europe, with problems of overmanning and overcapacity.

We believe that instead of making complete helicopters, Westland would steadily be reduced to producing only parts for a European machine.

Our skills, our know-how, our self esteem would all be degraded whereas with Sikorsky and Fiat they'll be enhanced.

With their help, we'll form a formidable new competitor for everyone else in the market.

But would the Government discriminate against Westland if we join forces with Sikorsky and Fiat?

Our Chairman wrote and asked the Prime Minister this very question.

The Prime Minister's assurances.

We sent the full text of both letters to our shareholders on 6th January and yesterday published them in an advertisement.

One of the key points she makes is this:

"As long as Westland continues to carry on business in the UK, the Government will of course continue to regard it as a British and therefore a European company, and will support it in pursuing British interests in Europe."

Why shareholders can't vote on both proposals.

We have sent you full details of both sets of proposals together with the Board's recommendation.

Some shareholders, however, have asked why they can't vote on the two and make a decision as they do in a competitive takeover.

There are two reasons why not.

First, this is not a takeover. It's a capital reconstruction for a company in extreme financial difficulty.

The Board's overriding duty is to assess, with its wide knowledge of the commercial background, what is best for Westland and to make a clear recommendation to shareholders.

Second, because of the urgency of the situation, we need a quick and decisive solution. We simply can't risk falling between two stools.

Apart from anything else, the law insists that either proposal gets a three-quarters majority. If both alternatives are put to shareholders, there's a real danger that neither will get that majority.

Our urgent priority must be to establish a stable framework within which Westland can operate.

Westland's phone-in.

We hope we have explained why your Board is strongly recommending you to vote without delay in favour of the Sikorsky and Fiat proposals.

If you have any difficulty in completing and/or returning your proxy card in time, we invite you to phone us between 10am and 8pm daily.

The number is 01-583 1398.

Every single vote is crucial for Westland's future and delay could seriously damage us.

Remember, to be valid, your proxy must be received this week.

FOR USE BY WESTLAND SHAREHOLDERS ONLY

Please return the coupon to The Registrar, Westland plc, National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS99 7YA.

Form of Proxy for use at the Extraordinary General Meeting of Westland plc ("the Company") to be held on Tuesday, 14th January, 1986.

I/We the undersigned being (a) member(s) of the Company, hereby appoint the Chairman of the Meeting or (see note 1).

as my/our proxy to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company convened for 10.30 a.m. on 14th January, 1986 and at any adjournment thereof. I/We direct that my/our vote(s) be cast on the resolutions referred to in the Notice of Meeting as indicated by an X as shown below and on any other resolution in such manner as my/our proxy thinks fit.

Date _____ Please complete in BLOCK CAPITALS

Signature(s) _____

Name(s) in full _____

Address(es) _____

RESOLUTIONS:	FOR	AGAINST
Number 1: Ordinary Resolution		
Number 2: Special Resolution		
Number 3: Special Resolution		

Notes:
1. If you wish to appoint any other person as your proxy, who need not be a Member of the Company, please delete the words "the Chairman of the Meeting or" and insert the name and address of your proxy.
2. Please indicate how you wish the proxy to vote in respect of the resolutions. If no indication is given, the proxy will have discretion as to whether and how to vote.
3. The valid proxy form must be accompanied by the power of attorney or other authority, if any, under which it is signed or a notary certified copy thereof must be lodged with the Company's Registrar, National Westminster Bank PLC, Registrar's Department, P.O. Box 82, 37 Broad Street, Bristol BS99 7YA, not later than 48 hours before the time fixed for the meeting or adjourned meeting.
4. In the case of a corporation, the proxy form must be executed under its common seal or signed on its behalf by a duly authorized officer.
5. In the case of joint holders, the vote of the senior holder shall prevail; a vote will be accepted in the calculation of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register, but the names of all holders must be shown.
6. Any alteration to this proxy form should be initialed.

WESTLAND

FINANCIAL TIMES

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Wednesday January 8 1986

Political link with Europe

MR NICHOLAS RIDLEY, the British Transport Minister, and Mr Jean Auroux, his French counterpart, gave every impression yesterday that their meeting in Paris to discuss the Channel fixed link was cordial. It is fitting, however, that the last minute wrangling over the link should be political rather than technical. Having disagreed for so long about the need for a link, it is hardly surprising that the two governments should now be politely disagreeing over the technicalities.

With so large an infrastructure project, it is only too easy to put excessive weight on engineering or economic factors and to forget that its principal rationale is political. A fixed link is not an economic necessity. In 1982, the Anglo-French Channel link study group, comprising officials from both countries' transport departments, concluded: "There is no doubt in our minds that port and shipping services could be developed to handle the growth in surface traffic projected up to the year 2000 and beyond."

Trading patterns

Nothing has since changed to render that assessment invalid. The rapid build up of cross-Channel traffic in the decade after Britain joined the European Economic Community reflected a structural change in UK trading patterns that may now be largely complete. There is little doubt that investment on a scale which would be modest set against the cost of any sort of fixed link would be sufficient to finance a new generation of larger, faster and more efficient ferries.

But whatever the economic arguments, the political case for a fixed link is strong. A tunnel or a bridge would be a tangible and permanent symbol of Britain's commitment to Europe, the importance of which cannot easily be quantified. The project—in Britain at least—does capture the popular imagination and has a prestige factor which is almost self-evidently advantageous for Mrs Thatcher. Both governments, sensitive to problems caused by high unemployment, are aware of the attractions of securing to do something about it by initiating a big infrastructure project. In the UK, a fixed link is politically easier to justify than a comparable domestic project.

US faces the hard questions

REPRESENTATIVE Les Aspin, chairman of the House armed services committee, has estimated that the Gramm-Rudman budget-balancing amendment could lead to an automatic cut of \$80bn, or more than a fifth, in US defence appropriations for 1987. This startling figure may at least draw the attention of the outside world to the fact that the amendment has been passed, though it does nothing to settle the debate about how much difference it will make. Enthusiasts will argue that it shows that the amendment is tough, not gradualist. Scenarists will say it simply shows that it demands the impossible, and will be evaded. Would-be believers like our recent contributor Dr Martin Feldstein will cite the estimate as a measure of the pressure on Congress and the President to agree on less dramatic measures.

What can be hardly doubted is that Gramm-Rudman will force the Administration and the Congress to think much more seriously than they have until now about how US government deficit might be reduced, whether or not they actually budget for the prescribed \$144bn dollar deficit prescribed for 1987, let alone achieve it. Since the amendment prescribes automatic cuts in defence and some politically sensitive civil programmes to achieve the necessary bottom line, it is supposed to enforce compromise. The amendment has some escape clauses, notably in case of low economic growth, and its legality is still under challenge, but the debate is now on.

Fiscal relaxation

There is no sign yet, though, of any great debate in the outside world about how to respond to a potentially drastic change in US policy—or even of any recognition that the outside world is in any way concerned with American housekeeping. Since the muted ambiguities of the Plaza meeting, when the Germans and the Japanese appeared to agree that they might find some room for fiscal relaxation if the US deficit was indeed reduced, nothing has been heard.

Given the steady pace of US budget-making, it will be some time before there is any pressing need for action in the out-

side world; but it is surely not too early to start a discussion. The conventional wisdom, as argued by the OECD and by such private sector commentators as Morgan Guaranty, is clear: a major fiscal tightening by the US, on top of the fall already achieved in the dollar, will sharply depress export demand world-wide, and reduce growth if no offsetting action is taken.

This analysis seems to be implicitly rejected by the governments of Germany, Japan and the UK, all of whom see budget-balancing as virtuous in itself, and seek, with various degrees of enthusiasm, to practice it. They have long argued that the high US deficit is the main cause for high real interest rates all over the world, and that a reduction in US borrowing and world-wide borrowing costs would make matters better, not worse, and notably better for the debtor countries of the world.

Monetary policy
 While this could indeed prove true, it amounts to backing a theoretical hope against a near-certain reality and is not an adequate form of contingency planning. It is not just a hope but a general belief that the combination of dollar depreciation and fiscal tightening will begin to reduce the US current account deficit from 1987 onwards. Since the growth of that deficit has provided nearly half the growth of total demand in Europe, and a higher proportion in some Asian economies, the implications arise from trivial. Indeed some Asian economies are already in near-recession simply because US demand is growing more slowly, let alone falling.

This does not mean that a fiscal balancing act is the only answer, or the right one. A resumed flow of capital to the developing countries, at lower interest rates, would probably be a more helpful counterpart; but it cannot be taken for granted that these results will automatically follow any US deficit reduction. Technology and deregulation have thrown monetary policy into confusion wherever they have made an impact, and lenders are scared. A helpful outcome, however, defined, will be much likelier if we prepare for it.

THE Third World debt crisis may at last be over. The latest propitious signal may have been an odd one, but was impressive nonetheless. It came on New Year's day.

When President Ibrahim Babangida of Nigeria announced that his country would limit its foreign debt payments in 1986 to 30 per cent of its export earnings, the financial community far from reacting with alarm and outrage raised hardly a murmur of protest.

Developing countries' massive debts will doubtless remain an endless source of difficulties for many years ahead, but they are losing their capacity to shock the international system. Third World debt is maturing from a crisis into a mere problem.

Back in 1983, the fate of the whole world economy was thought to hang on a flimsy thread of mutual dependence which bound the great international banks, the IMF and the debtor countries of Latin America, Africa and Asia. Each time this thread was stretched—by an unyielding bank or a deterioration in economic conditions—the dreaded word "default" along with its attendant bank runs, trade wars and monetary panics, would be exhumed from the vocabulary of financial crisis.

Against this background hardly anyone dared to contemplate what might occur if the debtors started to seize the initiative from the IMF and the banks. It was unthinkable that confidence and stability might actually be increased as the balance of power shifted in favour of the debtor governments. Yet this is exactly what has been gradually happening over the past year.

Nigeria's decision to limit its debt servicing to 30 per cent of exports—little more than half the money required to pay all the interest and principal coming due this year—may be less radical than the ceiling of 10 per cent of export earnings imposed by President Alan Garcia of Peru. President Babangida's plan is not, strictly speaking, a negotiable ultimatum. It comes from a country which has serviced all its medium-term debts on time and has accorded banks preferential treatment in relation to other creditors.

Nevertheless, the two countries' actions have a principle in common, which is more fundamental than all these differences: a principle which suggests that the increasingly self-confident debtor nations may have passed a turning point in their relations with the banks and the IMF.

Until last year, debt negotiations had been based on an axiom which was almost never questioned. Existing loan agreements were held to be inviolable, except when creditors chose to grant reschedulings or concessions to the debtors.

It was then up to the debtor government to "adjust" its economy in order to stay within its financing constraints. When a country like Nigeria or Peru sets a target rate of debt servicing this procedure is effectively reversed. The country's ability and willingness to spend its foreign exchange earnings on debt servicing, rather than on consumption or investment, becomes the dominant constraint in the negotiations. It is now the banks that have



Presidents Alfonsín of Argentina and Sarney of Brazil (left and centre left)—defiance of the IMF. Presidents Babangida of Nigeria and García of Peru (centre right and right)—imposing a solution on the banks.

For crisis, read problem

By Anatole Kaletsky

to "adjust" to this constraint—either by lending the country more money or by rolling over some of their interest payments.

As a by-product of this, the IMF has been losing its power over economic policies in debtor countries. For the first three years of the debt crisis, Mr Jacques de Larosière, the Fund's managing director, was the only man who could harness the lending power of the banks on behalf of an approved debtor.

Today, the IMF's assistance seems less indispensable. The "basket cases" like Peru and Bolivia are effectively borrowing more from their banks than from the IMF. The IMF's power may have declined, but the influence of its ideas has spread even to countries which vehemently denounce it as an institution.

At the same time, financial markets in the industrialised world have gradually become less alarmist about the threat of Third World debt to the international banking system.

In combination, all these trends are making the debtor countries more self-assertive and the traditional style of debt negotiation less successful. However, their net effect may ultimately prove stabilising, rather than disruptive.

Why have financial markets not been alarmed by Nigeria's announcement of a debt service limit, or by Brazil's refusal to come to terms with the IMF? Largely because they are increasingly looking at the

actual policies which countries are pursuing and the actual amounts of cash which they are likely to pay the banks.

Partly as a result, attention is also shifting from the financial to the economic implications of the debt crisis. This is the real significance of the call by Mr James Baker, the US Treasury Secretary, for "growth-oriented adjustment" in the debtor countries.

In the end, growth-oriented adjustment is bound to mean reducing the amount of money which Third World nations spend at present on servicing their debts. For it is clear that the present rate of debt repayment, involving very large net transfers of capital from Third World countries with huge unexploited investment opportunities to industrial countries with savings surpluses, is undesirable.

How these perverse investment flows can be reversed without disrupting the international financial system will be the central question in the next phase of the Third World debt problem.

Nigeria's and Peru's idea of setting debt service ceilings in relation to export earnings has been widely discussed by other debtors at the Cartagena Group summit.

What would be the implications of such a move? The table shows several ways of gauging... debt... servicing...

DEBT SERVICE INDICATORS

	(As % of total export earnings, 1985)		
	Debt service ratio	Cash flow ratio	Solvency ratio
Argentina	136	24	14
Brazil	47	29	15
Mexico	67	25	12
Nigeria	37	17	11
Peru	37	17	11
Venezuela	37	42	5

* Interest and capital repayments due in 1985 as percentage of export earnings. † Current account surplus, excluding interest payments, as percentage of export earnings. ‡ Total debt payments required to maintain long-run solvency (see text).

Source: American Express estimates and "Economic Policy," Vol. 1.

Fanshawe files for Westland

A man who has played a backstage but influential role in the Westland affair is Lord Fanshawe, formerly Sir Anthony Rayle, a Conservative MP for Richmond.

Over the past two months, Fanshawe, a non-executive director of Westland, has acted as Sir John Cuckney's right-hand man on the board, the beleaguered chairman has tried to steer a course through warring Whitehall departments.

Fanshawe's connections with senior Conservatives have proved most useful. He spent 24 years in the House of Commons and was for five years a vice-chairman of the party between 1979 and 1984.

Fanshawe and Cuckney have fought on the same side before—notably at Brooke Bond, the tea company taken over by Unilever in 1984.

Sir John was chairman of Brooke Bond at the time, while Fanshawe's non-executive directorship went back more than 10 years.

He is a smooth operator, his friends are skilled at political in-fighting and adept at survival. His experience running the Conservative Central Office International office helped these facts of his character.

In the present fight, however, his military background may count for more. Just after the Second World War he spent three years with the 21st Special Air Service Regiment.

Merry-go-round

The disentanglement of Gartmore Investment Management (which controls more than £2bn of funds) seems complete with its return to being a wholly-owned subsidiary of British and Commonwealth Shipping and its latest round of board changes this week.

William Matthews, group MD of money brokers Exco International has resigned from the board, leaving a top management now composed of B and C men, and Gartmore executives.

Men and Matters



"Do you get the feeling that the British would really prefer a fixed link under the Atlantic?"

says, it is a question of the "further integration" of joint operations.

Not to be sure, that there is any shortage of money in the film world. News reaches me from Hollywood that Frank Rothman, chairman of Metro Goldwyn Mayer, is to give up the burdens of his great office in return for a suitcase full of ingots mined from the silver screen—\$1,112,534 is the value of his farewell package. MGM itself is heavily in debt.

Fresh appeal

A batch appointment of three new Law Lords (Ackner, Oliver and Goff) this week is expected to be greeted with general approval by the Bar.

All three have the reputation of being sound judges—and they lack the lawyer's usual lofty condescension.

Lord Oliver's appointment was not unexpected. An ex-Chancery judge, aged 64, noted

for uncharacteristically clear rulings and with a potential for careful creativity, his appointment had been forecast since the death of Lord Diplock last year.

The other two vacancies arose as a result of the unexpected retirement this week of Lords Scarman and Roskill. Lord Ackner, aged 65, whose promotion will come as no surprise to bench-watchers, has been heard to claim that he never reads law reports in the newspapers. Having built up his reputation as a demolition lawyer, he is not afraid to open his mouth. Last year, he openly criticised the Government's proposal (later defeated in the House of Lords) to end the applicant's right of appeal in judicial review cases.

Lord Goff, at 60, is the youngest of the trio, and is probably one of the most well-liked judges on the circuit. He was, and remains at heart, an academic. He is mercifully concise in his deliberations.

All three are strong judges in their own way and are young by House of Lords standards. They form a powerful combination of common sense, integrity and intellect.

Roll play

A side of Arthur Scargill that has previously escaped national attention is that of the president of the National Union of Miscellaneous Workers' committees of the arts. Yesterday, Scargill made good this deficiency in the public's knowledge of his complex personality.

Gazing at a two-room "environment sculpture" by the German artist, Joseph Beuys, comprising mainly rolls of felt but including a grand piano, a blackboard and a thermometer, the leader of two-thirds of Britain's miners listened to a colliery.

The felt, he mused further, represented isolation, the piano sound, the blackboard (with musical notes) a means of transposing this sound and the thermometer—a well—change and reaction to change.

"Of course," he added, "many people would say this is just a load of carp's talk."

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INTL. COMPANIES & FINANCE

Sears subsidiary acquires 20% stake in Hagemeyer

BY DAVID DODWELL IN HONG KONG

SEARS WORLD TRADE, a subsidiary of the US retail group, yesterday completed a US\$50m deal by which it will take a 20 per cent stake in Hagemeyer, the Netherlands-based trading subsidiary of Hong Kong's First Pacific International.

The deal has been under negotiation since July last year. As well as subscribing to new shares in Hagemeyer at a cost of \$15m, Sears will acquire a majority interest in some of Hagemeyer's subsidiaries for \$14.5m, and will pay \$6m to reimburse "certain intercompany accounts" in Hagemeyer.

In September, First Pacific International announced losses amounting to \$5.3m for the first half of 1985. These were largely due to the poor performance of

Hagemeyer, which accounts for over 90 per cent of First Pacific International's turnover. The deal is part of an attempt to reduce group dependence on commodities trading. First Pacific's stake in Hagemeyer fell from 69 per cent to 55 per cent on completion.

First Pacific International is the trading and distribution arm of First Pacific Holdings, which is controlled by the Liem family and associates in Indonesia. It has had troubles linked with Hagemeyer since it took control of the 55-year-old group almost five years ago.

In 1982, US customs officials investigated whether coffee shipments arranged by a Hagemeyer subsidiary had entered the US in violation of the international coffee agree-

ment. The probe reached no clear conclusion, but a settlement cost Hagemeyer an extraordinary loss of US\$382,855.

Sears will not be acquiring Hagemeyer's coffee commodity division as part of the deal. This was sold to First Pacific International for an undisclosed price with effect from December 31. First Pacific said that an improvement in world coffee prices meant that 1985 losses would not be as great as originally feared. Hagemeyer has also sold and leased back "non-strategic" property interests in Singapore.

Sears expects to use Hagemeyer's worldwide trading and distribution network to sell its products overseas. Hagemeyer has 40 subsidiaries operating in 23 countries.

Japan lifts guaranteed foreign bond ceiling

By Yoko Shibata in Tokyo

THE JAPANESE Ministry of Finance decided on Tuesday to set the ceiling on issuance of government-guaranteed foreign bonds in fiscal 1986 starting April at ¥500bn (\$2.77bn), up ¥50bn over the current year. The increase reflects the inclusion of subway construction and sewerage system projects by the Tokyo Metropolitan Government into the nation's domestic demand expansion package, as well as a bond issue by the Kobe Municipal Authorities.

The Tokyo Metropolitan Government plans to float ¥50bn of bonds, including ¥10bn worth in the US—the first such issue in 22 years. The cities of Kobe and Yokohama plan to float ¥11bn of bonds each.

Issuers will also include Japan Development Bank with ¥123bn, Japan Air Lines (JAL) with ¥60bn, and the Export-Import Bank of Japan with ¥55bn.

The MOF plans to amend its guidelines to increase issues in the Euro market and the US market in a shift from the previous emphasis on the Swiss market.

Ceilings on government guaranteed foreign bond issues have increased steadily from ¥194bn in fiscal 1981 to ¥219bn in 1982, ¥409bn in 1983, and ¥500bn in 1984. The fall in the current fiscal year to ¥500bn was caused by Nippon Telegraph and Telephone (NTT), usually a large issuer, and the Bank of Japan not floating such bonds.

JAL to pass dividend payments

BY OUR TOKYO STAFF

JAPAN AIR LINES, the national flag carrier will pass its dividend payments for the current year to March. In his New Year's address Mr Susumu Yamaji, JAL's new president, said the company would find it extremely difficult to secure the profits needed for dividend payments. He also said JAL would barely be able to break even in the year to March 1987.

Mr Yamaji's remarks indicated that the crash of JAL flight 123 last August, which killed 520 people, requires heavy expenditure. They also reflect the impact of moves by passengers away from JAL after the worst single plane accident

in aviation history.

After the August crash, JAL revised downwards its pre-tax profits projections for the current year to ¥7.3bn from the initially forecast ¥12.5bn, but it now seems that JAL will find it hard to achieve even the revised target.

JAL suffered a 25 per cent decrease in domestic passengers in the quarter to December. In the peak year-end and new year period, there was an 11.5 per cent fall in domestic passengers, while All Nippon Airways and Toa Domestic Airline managed to equal the previous year's record.

After skipping dividend pay-

ments in fiscal 1982 and 1983 after a plane crash off Tokyo International Airport at Haneda in January 1982, JAL resumed dividend payments in 1984.

Mr Kaoru Ii, the president of Sanyo Electric Company, is prepared to resign to take responsibility for the marketing of faulty oil heaters blamed for four deaths and 41 cases of illness from carbon monoxide poisoning. AP-JN reports from Tokyo.

The president of the major home electric appliance company will offer his resignation to shareholders at a general meeting in February, the company said.

John Elliott on a London-based businessman's troubles in India
Swraj Paul withdraws from share battle

MR SWRAJ PAUL, a London-based Indian-born businessman who has been fighting a controversial company share transfer battle in New Delhi for the past three years, has decided to reduce his personal involvement in India.

This follows both a boardroom setback in his attempt to buy shares in Escorts, a Delhi engineering and automotive company, and a tussle with his Calcutta-based brothers over the management of a \$30m (\$761m) worth of chemical and fertiliser projects being promoted by the Paul family in India.

Yesterday, shortly before he left for London at the end of a three-week holiday in India, Mr Paul said for the first time that he was prepared to sell stakes of 74 per cent and 13 per cent he bought early in 1983 for \$8m in Escorts and in DCM (formerly Delhi Cloth Mills), another major New Delhi company. He feels "let down" by the Indian government and public sector financial institutions and said: "If the institutions want me to sell, I will sell."

The decision has come at a time when Mr Paul has been suffering other business setbacks. His Caparo group in the UK has had financial problems with Fidelity, an electronics company it bought 15 months ago. Mr Paul also says he expects to lose \$3m as a result of the closure of the loss-making Nova Park luxury hotel in Paris of which he is a former chairman as well as an investor.

Mr Paul was a close confidante of Mrs Indira Gandhi, the former Indian Prime Minister who was assassinated 14 months ago. He has consistently denied suggestions that he was responsible for investing the money of either the Gandhi family or India's Congress party abroad.



Mr Swraj Paul, chairman of the Caparo group

His controversial share deals in India started three years ago. He bought shares in Escorts and DCM for his Caparo group using special facilities introduced by the Indian government to encourage investment in India by non-resident Indians living abroad.

His holdings equalled or surpassed those of the Nanda family which has management control of Escorts and the Shriram family of DCM. His Calcutta brothers' Apcejay tea

and steels company bought

small stakes in both companies. Escorts and DCM refused to register the shares and a major row blew up in 1983, with the Indian industrial establishment fearing the predatory powers of rich non-resident Indians.

After lengthy court battles over the share-purchases, the Indian Supreme Court delivered a judgment last month which was a setback for Escorts. But it failed to clear Mr Paul's share purchases and also endorsed the boardroom authority of public sector financial institutions, which own controlling stakes in both companies.

The main blow to Mr Paul's pride came in the past fortnight when the financial institutions backed the family managements of both DCM and Escorts, even though the share ownership issue is still to be resolved by the Reserve Bank of India following the Supreme Court judgment.

In Escorts, the institutions renewed five-year management contracts for Mr Hari Nanda, the founder chairman, and his son, Rajan.

"I am no longer going to try to influence the running of these companies. I am quitting," said Mr Paul, who has accused the families of corrupt and inefficient management.

The dispute, however, is far from over and it seems likely that Mr Paul's brothers in India will continue the battle. Mr Suresh Paul, the youngest of four brothers and

chairman of the Apcejay group, is taking over responsibility for constructing a \$440m fertiliser plant in north India which the family won in competition against ICI and other Indian companies, and two polyester fibre and caustic soda plants costing \$90m.

Mr Swraj Paul says he is "withdrawing from emotional involvement" in these projects but will continue to provide off-shore finance. He is also shelving applications to the government for building an off-shore funded \$1.5bn gas fired steelworks in Goa, south of Bombay, and for electronics plants in Calcutta's north-eastern state of West Bengal.

Mr Paul estimates that his high profile entry into the Indian share market three years ago has cost him \$5m in lost interest and foreign exchange on the \$5m share purchases, for which he says he may sue his bankers, the Punjab National Bank. He has shaken up the Indian industrial establishment and raised questions about the feudal systems operating in many family companies, but he has failed, following Mrs Gandhi's death, to maintain his political clout.

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8th July 1986 U.S. \$10,134.11

Credit Suisse First Boston Limited

Agent Bank

All of these Securities having been sold, this announcement appears as a matter of record only.

December 11, 1985

NEW ISSUE

3,500,000 Shares

Paine Webber Group Inc.

Common Stock

(\$1 par value)

PaineWebber
Incorporated

Bear, Stearns & Co. Inc. The First Boston Corporation Alex. Brown & Sons Daiwa Securities America Inc. Deutsche Bank Capital Corporation
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This announcement appears as a matter of record only.

\$500,000,000

Commercial Paper Program

for

Commerzbank U.S. Finance, Inc.

guaranteed by

Commerzbank A.G.

MORGAN STANLEY & CO.

Incorporated

January 8, 1986

New Issue
January 8, 1986



VOLKSWAGEN INTERNATIONAL FINANCE N.V.

Amsterdam/Netherlands

DM 250,000,000

3% Deutsche Mark Bonds of 1986/1996 with Warrants

unconditionally and irrevocably guaranteed by

VOLKSWAGEN AKTIENGESellschaft
Wolfsburg, Federal Republic of Germany

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Repayment: on January 9, 1996 at par
Subscription Right: each bond of DM 1,000 will be issued with two warrants entitling the holder from February 11, 1986 until November 30, 1995 inclusive to subscribe for three bearer shares of Volkswagen Aktiengesellschaft at a subscription price of DM 407.- per share.
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All the securities have been sold, this advertisement appears as a matter of record only.

INTL. COMPANIES & FINANCE

Hong Kong's 'red capitalist' shrugs off a political role

BY DAVID DODWELL IN HONG KONG

WANG GUANGYING, China's "red capitalist," is dedicating 1986 to "talking less and doing more." The policy is Peking's, and was declared by the People's Daily to be the nation's new year resolution, but is particularly appropriate for the man who has had more than his share of controversy and political limelight since establishing China Everbright in Hong Kong two years ago.

For many, Wang represents much of what Deng Xiaoping, China's octogenarian leader, is trying to achieve as he tries to undo the damage of decades of political upheaval, puts greater emphasis on economic growth, and opens the country up to the outside world. As a "red capitalist," he embodies the logic of "one country, two systems" that is being used as a basis for reuniting the mainland with Hong Kong, Macao and Taiwan.

Since he established China Everbright in April 1983, his every move has been dissected by local political and business groups, which see his presence as more political than commercial. This has been helpful to Wang Guangying; some business deals might not have come his way had partners not been convinced of his influence in Peking. But it has also hampered him: "People treat me differently from an ordinary businessman, and I think this is unfair," he complains.

But Wang Guangying is not an ordinary businessman. Born in 1919 in Peking, the son of a minister in the Government of the northern warlords, he studied chemistry at Peking's Catholic Fudan University.

From the earliest stage, there was a strong international influence on the family. The "Ying" in Wang Guangying's name is a contraction of the Chinese word for England, and reflects the fact that he was born when his father was passing through London on the way to a peace conference in Paris on behalf of his government. His younger sister, Wang Guangmei, draws the "mei" in her name from the word for America. This time the conference had been in Washington.

Even as a raw graduate, Wang Guangying was bent on an entrepreneurial career. He used the 2,000 Chinese dollars left over from his wedding in 1945 to set up a business in Tianjin

in partnership with a friend: "I wanted to modernise China by setting up this chemicals factory," Wang recalls.

By 1954 Wang Guangying was set on a political as well as an entrepreneurial career; he was appointed vice chairman of the China Democratic National Construction Association, the country's main body for one-time entrepreneurs, and a deputy to the National People's Congress — his standing no doubt enhanced by the fact of his sister's marriage to Lin Shaoqi, who was to become Mao Zedong's second-in-command soon after liberation.

While other factory bosses were being thrown out and re-educated, Wang went unscathed. "I didn't suffer because I could have the policies directly from Lin Shaoqi, Zhao Enlai and Mao himself."

Wang's own nightmares began with the Cultural Revolution, when Lin was thrown out by Mao, vilified as a "renegade, traitor and scab." Big character posters in Peking demanded "Kill Wang Guangying, pull out his teeth, make Wang Guangmei stink." Wang was thrown into Peking's Qingcheng prison (where the gang of four are now incarcerated) and spent most of the next eight years in solitary confinement.

"I spent a lot of time watching the spiders spinning webs in one corner of my cell. Do you know it takes 14 days for a spider's egg to hatch?"

When he was released in 1975, Wang was restored to high office by Deng Xiaoping, soon to become vice chairman of the All China Federation of Industry and Commerce, a position he still holds today. "Looking back at the days of the cultural revolution, they were ridiculous," he says. "Nearly 100m people suffered during that time, either directly or indirectly, but it is difficult to settle accounts. The most important thing is to learn a lesson and prevent it from happening again."

Through Everbright, Wang Guangying is doing just that. It is hardly surprising that Hong Kong people refuse to see him and his company as they would most others in the territory. Everbright is intended to be China's first "trans-national corporation." It has a New York office, auspiciously on the 88th floor of the World Trade Centre, and is seeking offices in Europe. It has a general

agency in Peking and offices in Wuhan, Guangdong, Tianjin and Zhuhai.

Unlike other Chinese enterprises set up in the territory, which are extensions of businesses on the mainland, Everbright is a wholly local creation. Despite an initial impression that it was going to branch into all areas of Hong Kong's economy, it has after two years settled into the role of middle man and trader. "We act as an organiser," Wang says. "We find funds, act as an introducing

'In China they don't call me a capitalist — they call me an entrepreneur trying to do something for his country,' Wang says. He is at ease with what many outside see as a contradiction between China's socialist government and the re-emergence of entrepreneurs.

agency, and provide confidence for foreign partners.

"I attach great importance to making calculations. If we make a loss, no-one will help us," he insists. Many who initially thought he would perform the dual function of bolstering confidence in Hong Kong whenever a political hiccup unsettled the economy and nurturing projects on the mainland at "patriotic" prices, have found their views contradicted by several recent business moves.

Most prominent was his controversial withdrawal from a HK\$12m (US\$12m) deal with property magnate Li Kashing. Early reports of the deal had boosted a flagging property market. Abandonment of it drew accusations of market manipulation and insider dealing which have been the subject of a government tribunal for over a year.

Despite this, much of Everbright's Hong Kong-based

business is unlikely to generate significant profits for many years. Of 20 projects in China, most are linked with infrastructure development.

Wang Guangying insists that these deals are exploratory in a China that has stood still for the better part of half a century, they are urgently needed, but would never be profitable, even if Wang was not feeling his way with inexperienced staff. The shortage of well-trained Chinese is by far the greatest limit on growth, he claims.

In Hong Kong, many feel there has been more talk than action. There have been long delays on a major property development in Admiralty, near to the central business district. Most projects in nearby Zhuhai amount to cleared sites and little else.

The company was linked with a contract to build a new cross-harbour tunnel in the territory, but has now washed its hands of the deal. Withdrawal from the property deal with Li Kashing is part of Hong Kong's corporate folklore.

Happily, the group's core business of introducing foreign equipment and technology into China has grown much more rapidly, and is generating most of company profits. Wang Guangying claims Everbright has imported goods worth US \$600m so far. Little of this is noticed in Hong Kong, since it is handled exclusively by Everbright's Peking subsidiary.

"In China, they don't call me a capitalist — they call me an entrepreneur trying to do something for his country," Wang says. He is at ease with what many outside see as a contradiction between China's socialist government, and the re-emergence of entrepreneurs who are being allowed to get rich from their own endeavours.

"You can't say a planned economy is socialist any more than you can say a market economy is capitalist. Even in capitalist economies you have plans, why can't you have elements of a free market in socialist ones?" he asks.

As Wang Guangying settles into talking less and doing more, there will be many in Hong Kong who take heart from such words just 11 years ahead of reabsorption into China. As one prominent businessman in Hong Kong noted: "May he and his kind in China live long."

New Issue

These Bonds have been offered and sold outside the United States of America. This announcement appears as a matter of record only.

September 1985



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(Kabushiki Kaisha Sanwa Ginko)
(Incorporated in Japan with Limited Liability)

U.S. \$100,000,000

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November 1985

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US\$150,000,000

Floating Rate Notes due 2000

Notice is hereby given that the first interest sub-period of the interest period ending on 30 April 1986 has been fixed at 5% per annum. The amount payable for the second interest sub-period will be US\$206.25 in respect of the US\$100,000 denomination notes and US\$196.25 in respect of the US\$50,000 denomination notes and will be payable together with the amount for first interest sub-period of the said interest period on 30 April 1986 against surrender of Coupon No. 4.

Manufacturers Hanover Limited
Agent Bank

MANUFACTURERS HANOVER CORPORATION

US\$100,000,000

Floating Rate Subordinated
Notes due 1997

In accordance with the provisions of the Notes, notice is hereby given that the coupon amounts for the period 15th October 1985 to 15th January 1986 will be US\$17.22 for the US\$10,000 denomination and US\$15.26 for the US\$5,000 denomination, and will be payable on 15th January 1986 against surrender of Coupon No. 2.

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US\$100,000,000

Floating Rate Notes due 2004

Notice is hereby given that the first interest sub-period of the interest period ending on 30 April 1986 has been fixed at 5% per annum. The amount payable for the first interest sub-period will be US\$7.78 and will be payable together with the amount for the second and third interest sub-periods of the said interest period on 30 April 1986 against surrender of Coupon No. 7.

Manufacturers Hanover Limited
Agent Bank

TECHNOLOGY

Peter Marsh on efforts to simplify the layout for gate-array devices

Route cause of a chip problem...

HOW DO you devise the shortest possible route that takes in the capitals of all 50 US states? That conundrum, known as the travelling salesman problem, has kept mathematicians (and batteries of powerful computers) occupied for decades.

Electronics engineers working with relatively new types of chip called gate arrays encounter similar difficulties. They have to devise ways to link up as many as 3,000 electrical contacts impregnated on a tiny chip in such a way that the semiconductor performs a specific set of operations.

In gate arrays, sold by companies such as Fujitsu, Motorola, NEC, Ferranti, Texas Instruments and LSI Logic, chips are produced in a partially completed or "semi-customised" form before having the circuit layout finished to meet a specification from the customer.

Each contact on the chip may have to be linked to as many as 20 other points to make the final device suitable for, say, a processing operation in a particular form of product such as an electronic testing system.

For a moderately complicated device, the problem can translate into devising 10,000 different interconnections.

"You can easily get your knickers in a twist," observes Dr Andy Hopper, a director of Qudos, a new company in Cambridge which attempts greatly to simplify the layout process.

BOTH QUDOS's technology and the people behind it are testimony to the growing centre of small, technology-based concerns.

In particular, Qudos has strong links with Acorn, the Cambridge computer company in which Olivetti of Italy took a majority stake after the enterprise ran into financial difficulties earlier this year.

Mr Peter O'Keefe and Dr Andy Hopper, two of Qudos's directors, are former directors of the computer company.

Also on the design team's board is Dr Hermann Haas, Acorn's founder who lost his job as a chairman during the Olivetti take-over but who is still an Acorn director.



Peter O'Keefe (left) with Dr Andy Hopper and Dr Haroon Ahmed.

dured for gate-array devices with a set of low-cost computer-aided design techniques.

Qudos, backed with a modest investment of about £500,000, plans with these methods to introduce a "do-it-yourself" philosophy into the business of completing the design of gate arrays.

It seeks to disrupt the pattern in which developers of electronic hardware are faced with specialised design teams (often from the manufacturers of the gate arrays) to do this job for them.

As a result of low overheads and inexpensive software and hardware methods, Qudos hopes to charge clients "a few thousand" pounds for turning

out on their behalf a batch of chips completed to a specification.

The customer, which would normally be an electronics enterprise employing fewer than 100 people, would do the design work itself, with a £15,000 computer package (see story below).

The bill for the work contracts with the £20,000-£50,000 that an established chip concern would normally charge for completing a gate array in this manner.

In essence, Qudos, which reckons Britain alone contains 5,000 small companies which could use its services and projects an annual turnover in the first year of £750,000, is trying to usher in to the chip business

what home repair kits and expensive power tools have already brought to areas such as car maintenance and decorating.

Moreover, use of gate arrays is a fast growing part of the world's semiconductor industry. Sales of the devices totalled some £600m in 1984, a 50 per cent increase on 1983.

According to some projections, sales may grow fourfold by 1989 to some £2.5bn. That is out of the worldwide market for semiconductors which is currently worth some £18bn a year.

But Qudos may not have chosen the best time to start its business. Sales of semiconductors are dipping and, as a result, established gate-array

companies are cutting their charges for completing the layout on the chip.

The price-cutting has in recent weeks led to the demise of a second UK concern which attempted to operate a similar business to Qudos.

Array Logic, set up in Melbourn, Cambridgeshire, a year ago with backing of £2m, has called in the receiver after failing to generate enough business to cover expenses.

A rueful Dr Bob Whelan, managing director of the company, said that some gate-array companies, particularly Japanese concerns, were discounting their prices greatly. In some cases, they were doing the final layout for nothing, which made it impossible for Array Logic to compete.

"We wish Qudos all the best," said Dr Whelan. "But they may find they suffer the same problems."

According to Mr Peter O'Keefe, Qudos's managing director, his company will aim to recruit as customers smaller companies than Array Logic. The company is also depending on gaining substantial orders from chip-research groups in universities.

By targeting small concerns which currently do not make much use of gate arrays, Mr O'Keefe, Qudos's managing director, says any consequences of the price-cutting battles waged by the chip companies.

needed to define the thin strands of metal used in the interconnection.

Qudos will use two electron-beam machines, each built by subcontractors in Cambridge (such as Cambridge Electronic Design and George Lister) at a cost of some £200,000. That compares with the £1m-£2m cost of commercial electron-beam machines, made by companies such as Perkin-Elmer and Varian.

Under Qudos's plan, customers for its services will buy a £15,000 package which includes the chip-design software and a scientific work station (high-powered computer) made by Acorn. The price also includes a week-long training course at Qudos's offices.

Qudos thinks that about 30 of the companies could eventually become regular users of the software.

In Qudos's process, electron-beam machines designed by Dr Ahmed's laboratory will do the physical job of completing the interconnections of gate-array chips. Qudos will buy the latter from companies such as Texas Instruments, Ferranti and Phillips.

In electron-beam hardware, sharply focused electrons trace a circuit pattern on a chip substrate according to instructions in a computer program. The electrons can "draw" the very fine lines



The T90, Interface Unit DMB and MSX personal computer.

Camera that can be connected to a personal computer

CANON, the world's leading single-lens reflex camera maker, has launched a top-of-the-range camera, the T90, in answer to the successful X7000 from Minolta, its main rival, a year ago.

Like its competitor, the T90 contains several innovations. For example, it is the first conventional machine which can be connected to a personal computer. Using the link it is possible to enter details about each frame such as exposure, date taken and reference number.

This is aimed at professionals such as doctors and dentists, for example, who use photography to become totally electronic, as has been demonstrated with Sony's Mavica camera.

With the T90, Canon wants to strengthen its position in the SLR market which has been in decline for several years. Only the top of the range, where cameras cost more than £200, has been growing.

This sector includes professional and enthusiastic amateur photographers.

Camera makers believe that bringing out more sophisticated cameras is the way to woo customers.

The T90 is in that mould. Canon says it contains all the electronic features, apart from automatic focusing, likely to be needed in a camera. Apart from the fact that it has eight picture modes, it is one of the fastest on the market, capable

of shutter speeds of 1/4,000th of a second. Canon says only a few other cameras can operate as quickly but all need a lot of power. The T90, by contrast, can run both the shutter and high-speed motor drive on four AA size batteries.

The high-speed shutter, which Canon calls its permanent magnet shutter, has required five technical innovations in shutter mechanics. These include lightweight, specially-coated superduralumin shutter blades, designed to withstand the shock of high-speed working but light enough to move quickly with little effort and low power consumption.

A novel spring mechanism, acting like a car's turbocharger, supplies an additional burst of power when needed.

The T90 also includes three tiny motors instead of the normal single motor to control film frame advance, shutter and automatic rewind. This has resulted in a relatively low-power consumption and compact motor drive compared with other models.

The electronics system, which controls the camera's operation, is the most complicated developed by Canon. There are two microprocessors which between them control sequence control, display information, exposure calculations and motor control. The T90 will be available next month of just under £400.

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Ultrasonic flaw detector

A NEW ultrasonic flaw detector from Wells Krautkramer is built around what the manufacturer claims to be the most sophisticated signal amplifier fitted in any portable instrument currently available.

The instrument, designated the USL 42, can be used to monitor volume production components on line with the facility for hard copy recording of test data.

Wells Krautkramer says it affords sufficiently high resolution to be used in the aerospace industry as well as for the inspection of castings, forgings and weld examinations.

It is possible to inspect anything, it says, from automotive components which require low frequency ultrasound to this section high strength alloys which need good near-surface resolution.

More on 0462 678151.

Clean-up time in the laundry

ADMINISTRATION is the base of the small laundry—which is why Mr Jim Swinger of Saracen Computer Systems, Uttrother, Staffordshire, believes he will clean up with a software package which eliminates much of the paperwork connected with pricing, invoicing and delivery.

He says there is great potential for the package among small and medium-sized laundries. "One of its chief advantages is that it enables them to cope with additional business without an increase in clerical staff," he says.

The package, in use in a laundry in Oldham, Greater Manchester, handles 800 van calls a week, the work of two clerical staff.

More on 08893 68848.

New Issue January 8, 1986

This advertisement appears as a matter of record only.

Union Bank of Finland Ltd

Helsinki, Finland

DM 250,000,000 Floating Rate Subordinated Notes due 1996

Offering Price: 100%
Interest: ¼% above three-month-LIBOR; Maximum Interest Rate 8% p.a.
Repayment: January 1996 at par
Listing: Frankfurt Stock Exchange

Deutsche Bank Aktiengesellschaft	Union Bank of Finland Ltd Aktiengesellschaft	Westdeutsche Landesbank Girozentrale
Algemene Bank Nederland N.V. Aktiengesellschaft	Bank of Tokyo (Deutschland) Aktiengesellschaft	Bankers Trust GmbH
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Swiss Volksbank		Union Bank of Switzerland (Securities) Limited



Extracts from the Letter to Shareholders from Mr Patrick POLLET Chairman and Managing Director

Roubaix, 5 December 1985

During a period in which the general economic situation provided no more encouragement for consumer spending than in the preceding two years, the Redoute group nevertheless achieved further growth during the 1985 Spring/Summer season.

This growth was particularly evident in mail order sales and in general and specialised matching clothing, both in France and Italy.

There were other reasons for satisfaction during this first half-year: the confirmed commercial success of the Prêt-à-porter network in Italy and Spain, as well as the steady progress being made by France.

This promising picture is nevertheless slightly tarnished by the commercial difficulties encountered by the Prêt-à-porter group (particularly the maturity of the network in France). Edouard Romaldi in their brokerage activities and the German network of Prêt-à-porter.

Taken into account the business activity and results achieved by Le Redoute S.A., the Redoute group's consolidated turnover for the first half-year amounted to 4.8 billion francs (+15.5% on a comparable basis) and net profits to 28 million francs (+12.4%).

At 30 November 1985, consolidated sales reached 8 billion francs (+13.3% on a comparable basis).

It is the target for the last three months of the financial year are achieved, this rate of growth will be maintained or even improved and will be accompanied by an increase in profits, about which it is difficult to be more precise due to the measures we are currently taking to turn round some of our companies.

CRA FINANCE LIMITED

U.S.\$400,000,000

Floating Rate Notes due 1995 and Short Term Eurobonds

Notice is hereby given to the holders of the U.S.\$400,000,000 Floating Rate Notes due 1995 (the "Notes") of CRA Finance Limited (the "Company"), that pursuant to the provisions of clause 4 (b) of the Terms and Conditions of the Notes the Company has elected to redeem on the Interest Payment Date falling on January 25, 1986, U.S.\$22,000,000 principal amount of the Notes.

Notes of U.S.\$100,000 each: A16-18; A23; A36; A40; A55-70; A75; A82; A110; A151; A173; A211; A230; A232; A239.

Notes of U.S.\$500,000 each: 08-102; 017-20; 022-21; 0101; 0113; 0135-0137; 0185; 0202; 0204; 0222.

The Notes will be redeemable at their principal amount on and after January 25, 1986 with all unsecured interest earned thereon. Payment of Notes will be made upon presentation and surrender thereof, together with all coupons, if any, representing interest earned thereon, to the redemption date, or the date of the next Interest Payment Date, at the office of the Company, 40 Broad Street, New York, New York 10004, U.S.A., or Bank of America N.T. & S.A., 25 Cannon Street, London EC4A 3DF, England, or Bank of America N.T. & S.A., 43-47, Avenue de la Grande Armée, 75110 Paris, France, or Bank of America N.T. & S.A., Schweizerstrasse 15, CH-8002 Zurich, Switzerland, or Bank of America N.T. & S.A., Tokyo-Mitsubishi Building 21, Marunouchi-cho, Chiyoda-ku, Tokyo, Japan or Bank of America N.T. & S.A., Bank of America Tower, 12, Harbour Road, Hong Kong.

The principal amount of Notes outstanding after January 25, 1986 and after taking into account the U.S.\$22,000,000 principal amount of the Notes to be redeemed by the Company on January 25, 1986 will be U.S.\$378,000,000.

Dated January 8, 1986.

BANQUE INTERNATIONALE A LUXEMBOURG S.A.

as Principal Paying Agent for the Floating Rate Notes due 1995

A FINANCIAL TIMES SURVEY

VEHICLE FLEET MANAGEMENT

MONDAY FEBRUARY 10 1986

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Northern Examining Association

Associated Lancashire Schools Examining Board

Joint Matriculation Board

North West Regional Examinations Board

Yorkshire and Humberside Regional Examinations Board

Information Technology System for the Northern Examining Association

INVITATION FOR PROPOSALS

The NEA is inviting proposals for a major computing system to support its GCSE examinations, which will be conducted for the first time in 1988.

The system should be fully compatible with existing ILM equipment and will consist of a network involving one central site in Manchester and remote sites located in Harrogate, Manchester (two), Newcastle-upon-Tyne, Salford and Sheffield. It is anticipated that the system will utilise advanced data handling and enquiry languages facilities to support the complex administrative and processing of 1.8 million subject entries from 355,000 candidates at 3,800 centres. Implementation of the first phase of the system must commence by December 1988.

The successful supplier will be required to take full responsibility for both hardware and software, and to work closely with the NEA's staffs in developing the suite of programs necessary to run the NEA's examination system.

Organisations wishing to submit proposals should submit a request for a Statement of Requirements to the address below by no later than Friday, 26th January, 1986.

The Secretary
YORKSHIRE & HUMBERSIDE REGIONAL EXAMINATIONS BOARD
Scaresdale House, 146 Derbyshire Lane, Sheffield S6 6SE

100-443617-1

[Handwritten signature]

Figure 1

[illegible]

1. *Chlorophyll a* (Chl *a*)

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• • •

100

1. *Chlorophyll a* and *Chlorophyll b* contents were determined by the method of Lichtenthaler and Whistler (1972).

100

Financial Times Wednesday 24 January 1990

Financial Times Wednesday 24 January 1990

25

Save & Prosper International PO Box 73, St. Helier, Jersey		0534 75983		Wynward Investment Management Jersey Ltd 39-41 Broad St., St. Helier, Jersey		0534 74715	
Fund of Funds Ltd		12.00		Worldwide Growth Management Ltd		1.11	
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Fund of Funds Ltd		12.00		Worldwide Growth Management Ltd			

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WORLD STOCK MARKETS

CANADA

MONTREAL

Bank Mont	\$345	32 1/2	32 1/2	- 1/4
Bombard	\$131 1/2	14 1/2	14 1/2	- 1/4
BombardB	\$164 1/4	14 1/2	14 1/2	+ 1/4
CB Pak	\$235	23 1/2	23 1/2	- 1/4
Can Pac	\$109 1/2	10 1/2	10 1/2	- 1/4
CanBath	\$102 1/2	10 1/2	10 1/2	- 1/4
DomT&A	\$140 1/2	14 1/2	14 1/2	- 1/4
Geo Metro	\$112 1/2	11 1/2	11 1/2	- 1/4
Manitex	\$16 1/2	16	16	- 1/4
ManitexB	\$235	23 1/2	23 1/2	- 1/4
Power Corp	\$216 1/2	21 1/2	21 1/2	- 1/4
Provingo	\$16 1/2	16	16	- 1/4
Royal Bank	\$330 1/2	33 1/2	33 1/2	- 1/4
RoyTrust	\$202 1/2	20 1/2	20 1/2	- 1/4
Steinberg	\$36	36	36	- 1/4

Indices

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

LONDON

Chief price changes
(In pence unless otherwise indicated)

RISES			FALLS		
Anglo Am Gold	546 1/2	+ 4 1/2	Tr 11K% 2003/07	1106 1/2	-
Asprey	488	+ 48	Barclays	450	-
BSR Int'l	73	+ 5	Barrett Dev	125	-
Brit Benzol	65	+ 4	Boots	232	-
Burmah Oil	284	+ 8	Brit Home St	310	- 2
Cabletel	109	+ 11	Grand Met	393	-
Hanson Trust	200	+ 5	GUS A	777	-
Horne (Rob)	113	+ 8	Guinness	307	-
Lombard	215	+ 9	Habitat-Hotels	430	-
Pepe	96	+ 11	Hawker Siddeley	465	-
Ropper	146	+ 12	Mathews (B)	525	- 2
Rustenburg Plat	546	+ 46	Metal Cios	134	- 1
Weber Kluge	113	+ 8	Petramol	90	- 1
			RMC	450	-
			Tomkins (F H)	225	- 1
			Tricentrol	130	-

Ex 10 1/4% Conv 1989 537 1/4 - 1/4

NORTH AMERICAN QUARTERLIES

TEPCO Shipping, warehousing & retailing			RITE AID Drug stores		
Third quarter	1985-85	1984-85	Third quarter	1985-85	1984-85
	\$	\$		\$	\$
Revenue	864.7	885.5	Revenue	333m	345.8m
Net profits	27m	8.2m	Net profits	14.2m	15.5m
Net per share	1.71	0.54	Net per share	0.34	0.38
Nine months					
Revenue	1,539m	2,049m	Nine months		
Net profits	61.6m	82.2m	Revenue	1.14m	983m
Net per share	3.88	3.18	Net profits	37.8m	43.7m
			Net per share	0.91	1.06
PICK AND REELEY Account brokerage			WALGREEN Drug stores		
Third quarter	1985-85	1984-85	Third quarter	1985-85	1984-85
	\$	\$		\$	\$
Revenue	47m	15.6m	Revenue	877.7m	716.5m
Net profits	2.7m	2.2m	Net profits	47.2m	13.0m
Net per share	13	35	Net per share	0.28	0.25
Nine months					
Revenue	51.4m	45.5m			
Net profits	8.5m	5.8m			
Net per share	1.29	0.91			

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& LUXEMBOURG**

HAND DELIV SERVICE

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 33

[illegible][illegible]

Stock	Dr	P/E	52	High	Low	Close	Change	Stock	Dr	P/E	52	High	Low	Close	Change	Stock	Dr	P/E	52	High	Low	Close	Change	Stock	Dr	P/E	52	High	Low	Close	Change
Adrian		223	11	11	11	11	11	D D								Indust		38	184	31	31	31	31	Heart		57	47	47	47	47	
AirCorp	16	20	380	30	29	29	29		DWG	08	200	24	24	24	24	1	Insur		39	147	34	34	34	Plant		5	108	10	10	10	
Alcoa	50	22	34	31	31	31	31	Daimler	200	350	34	34	34	34	34	1	Introd		39	184	31	31	31	ReAd		12	12	12	12	12	
AlSpart	50	22	34	31	31	31	31	Danco	16	101	101	101	101	101	101	1	Jacob		17	18	7	7	7	ReAd		12	12	12	12	12	
AlCar	6	86	6	86	6	86	6	Danone	865	11	11	11	11	11	11	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	106	106	106	106	106	106	106	DevCo	1468	5	146	146	146	146	146	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12	12	12	
AlChem	20	28	151	151	151	151	151	Dinco	20	644	41	41	41	41	41	1	John		3	145	3	3	3	ReAd		12	12	12			

OVER-THE-COUNTER

Nasdaq national market 2.30pm prices

Sales (Units)										Sales (Units)									
Stock	High	Low	Last	Chg	Stock	High	Low	Last	Chg	Stock	High	Low	Last	Chg	Stock	High	Low	Last	Chg
AAC	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
ADG	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AFB	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGC	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGH	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGI	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGJ	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGK	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGL	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGM	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGN	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGO	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGP	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGQ	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGR	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGS	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGT	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGU	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGV	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGW	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGX	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGY	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGZ	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGAA	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGAB	11	22	11	20	20	10	22	11	20	10	22	11	20	20	10	22	11	20	20
AGAC	11	22	11	20	20	10	22	11	20	10	22	11	20	20					

Continued on Page 31

FINANCIAL TIMES SURVEY

INVESTING IN BRITAIN

JUST OUTSIDE Merthyr Tydfil in the heart of industrial south Wales, on the old road from Cardiff, there is a factory that on high days and holidays flies three flags. Two are, naturally, the Union Flag and the Welsh Dragon; the third is the Japanese.

The factory belongs to Sekisui, one of the Japanese concerns that have been drawn in increasing numbers to Britain. Almost next door to Sekisui is the Hoover factory, where the US electrical products group makes washing machines.

These two are symbolic of the way in which Britain has managed to attract direct investment from overseas. Hoover is a large concern, employing almost 3,000 people and has been established in Merthyr for many years. Sekisui is probably the smallest Japanese concern in the UK, employing fewer than 50 people, and a relatively recent entrant to the area.

The flow of inward investment that these companies represent, shows no signs of drying up. Komatsu, also from Japan, announced just before Christmas that it was to make heavy construction equipment in the north east at Gateshead and Euro-Compound Belgium, a supplier of compounds for the carpet industry, set up a manufacturing operation in Manchester.

The list of overseas companies that have established operations in the UK is impressive: Ford, General Motors, Du Pont, Esso, IBM, Hewlett-Packard from the US, Sony from Japan, SKF from Sweden, Phillips from the Netherlands,

A stable society, improved labour relations and generous incentives have all helped Britain secure the biggest share of overseas investment coming to Europe. As countries worldwide seek new jobs, competition for new projects will continue to be intense

A lion's share

By ANTHONY MORETON, Regional Affairs Editor

Olivetti from Italy, Ciba-Geigy and Roche from Switzerland, Rhone-Poulenc, Renault and Michelin from France—these names just scratch the surface.

Britain has, in fact, captured the lion's share of the investment that has migrated to Europe from both West and East, a performance which is viewed with envy by a number of other European countries. Last year alone, major investments were announced in the UK by Du Pont, Hewlett-Packard, Rolm Corporation (an IBM subsidiary), Damos Biotech, Merck Sharp and Dohme, Digital Equipment and Data General Corporation.

Some 41 per cent of all US investment in the EEC, amounting to some \$32bn (approx £23bn) has come to Britain. The nearest competitor, West Germany, has attracted 19.3 per cent of that investment, worth \$15bn, with the Netherlands in third place with 10.5 per cent

worth \$8.3bn.

Most Japanese investment in Europe has also come to the UK and even when Japanese concerns have moved to Europe that move has often been from a bridgehead in Britain. It has been estimated that around 40 major Japanese concerns, including Sony, Matsushita and Hitachi, are in the UK.

Nor is it just the US and Japan that are investing in the UK. Many of the major European concerns are in the country and there is increasing interest in Britain from places such as Australia, Hong Kong and Singapore.

In 1984, the last full year for which figures are available, 235 foreign-owned concerns undertook investment in the UK, of which almost half, 134, were American and a further 98 West German. The Invest in Britain Bureau has estimated that these projects created 28,125 jobs and safeguarded almost 18,000 more.

In many of these cases the motivation is a desire by expanding companies to open up new markets for their products and to eliminate transport costs, or, particularly in the case of the US, to take advantage of lower wage costs.

The big increase in Japanese investment over recent years has to a large extent been prompted by another factor—increasing pressure from its trading partners for a reduction in its direct exports. The growing prospect of EEC trade restrictions in a number of product areas has persuaded the Japanese it would be politic to transfer some production destined for Europe to Europe itself.

The fact that mobile investment is often English-speaking, or that English is the major foreign language of executives, has given the UK an enormous lead in attracting schemes such as these.

The number of Japanese businessmen who speak European languages other than English is infinitesimal. British development agencies and local authorities have too gone out of their way to smooth the path of Japanese managers in Britain, and this has undoubtedly played an important part in sucking in additional investment.

Intangible business factors such as language are, however, outweighed by solid commercial reasons when it comes to choosing between locations.

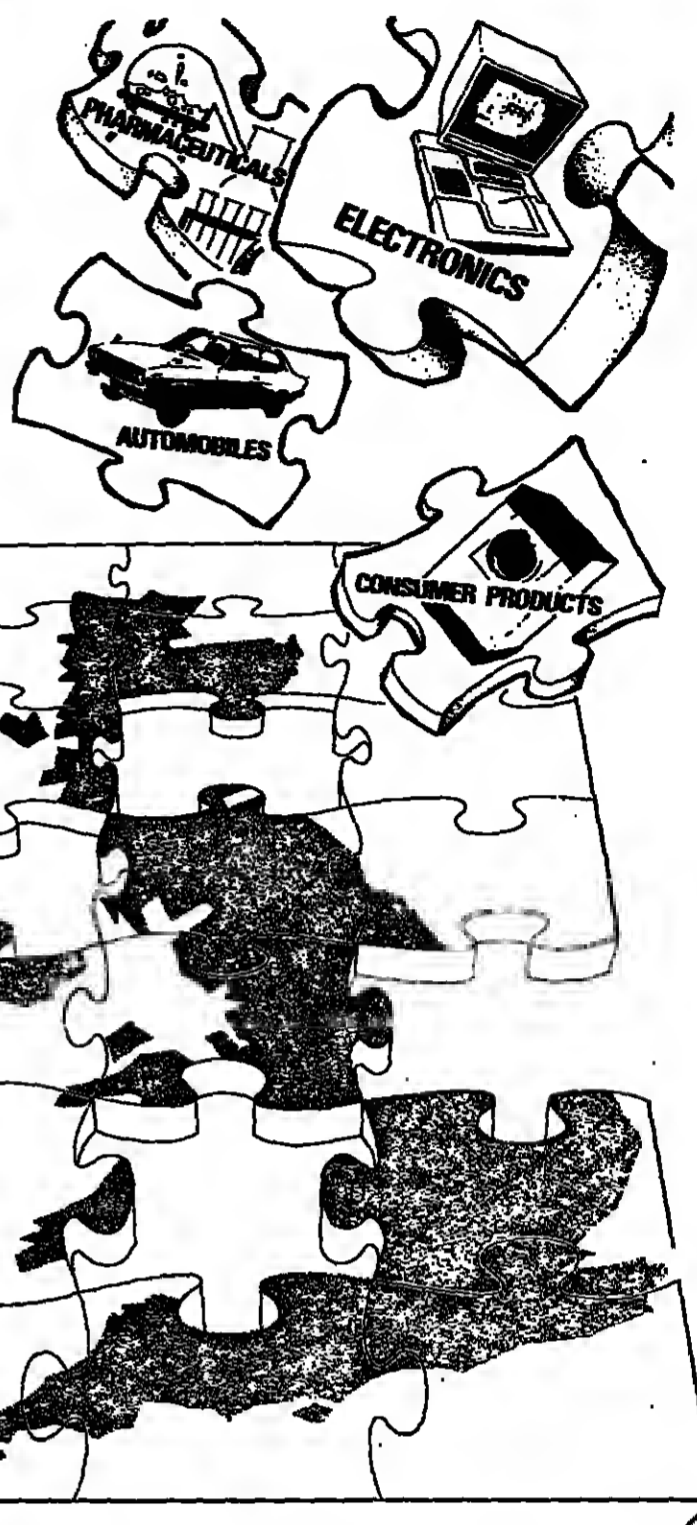
All the European countries compete strongly in the provision of grants and other incentives in order to attract mobile international projects, and there is strong competition too from other parts of the world, including most recently China. Japanese companies in particular are being strongly courted by the Chinese.

In Britain itself, some £500m was spent in the 12 months to April 1985 on mandatory and selective assistance to industry setting up in economically depressed regions, though this figure is likely to be lower in subsequent years following the redrawing of the aid map by the present Government towards the end of 1984.

In the areas still covered, however, a company can still receive mandatory grants of 15 per cent towards the cost of new plant, machinery and buildings and one moving to a lower-tier, intermediate area can still find itself eligible for selective financial assistance.

Another factor which has

CONTINUED ON NEXT PAGE



IN THIS SURVEY

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Accountants 16

JAGUAR

ROLLS-ROYCE LIMITED

M.F. Motors

DUNLOP

ARMSTRONG ENGINEERING LIMITED

MOTOR PANELS

S&C

PEUGEOT TALBOT

AUSTIN ROVER

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LONDON TAXIS INTERNATIONAL Ltd

TORRINGTON

TI Machine Tools

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why invest in Britain
should be sent to

COVENTRY

and they will find
themselves in good company.

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HOWARD BLAKE, MARKETING UNIT, COVENTRY CITY COUNCIL, EARL STREET, COVENTRY CV1 5RR
TEL: (0203) 25555 EXT. 2378. TELEX: 31469

20,000 reasons why Philips is investing in Britain.

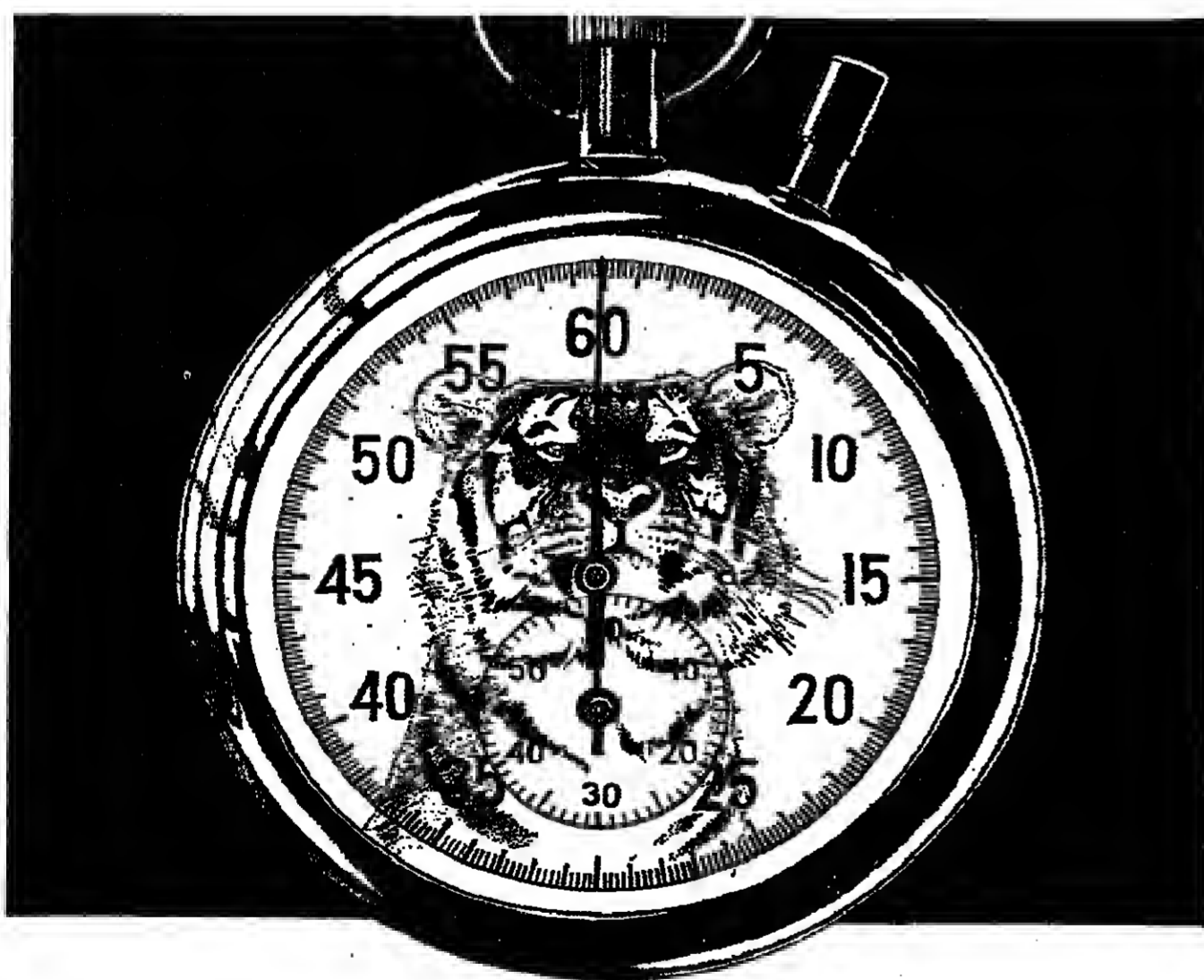
Since 1925 Philips have been involved in research, development and manufacturing in Britain. And in that time we've been granted over 20,000 patents.

That's one for every employee of ours in this country, which means a massive investment in and commitment to Britain.

For over the last 60 years we have found that British innovation, skills, hard work and Philips investment are a potent combination. And it's a combination we continue to invest in for the future.

Whatever we do to meet the challenge of change, we won't be changing the things that really work.

PHILIPS



Every minute of every day Esso spends £2,000...
80% of everything we buy is bought from British suppliers supporting 40,000 jobs.

Between now and 1990 we expect to spend another £4½ billion in the UK...

Esso. Quality at work for Britain.

Esso

A member of the Esso Group

Investing in Britain 4

Foreign banks attracted by open door policy



Financial Services

BARRY RILEY

BRITAIN HAS one of the most open and internationally orientated financial sectors in the world. There has long been a substantial foreign participation in banking and insurance. Now the only major clear sector, the domestic securities market, is being dramatically opened up later this year in a fundamental restructuring dubbed the "Big Bang".

Traditionally Britain, as an island nation with at one stage a substantial worldwide empire, has been highly active in international trade and this has led naturally to the development of various financial markets — for banking services, insurance, commodities and securities.

Since the Second World War, however, the empire has faded away, and a major driving force behind the growth of financial services has been the determination of the Bank of England to promote the City of London as a major international centre.

The major example of this has been the "open door" policy towards foreign banks in the past 20 or three decades, at a time when many countries have valiantly protected their own banking systems against external influence.

Now there are as many as 30 foreign banks with full branches in London, according to a survey by the Bankers' Association.

International banking dominates the banking sector, as is shown by the fact that two-thirds of the £736bn liabilities of the banking system in mid-October were denominated in foreign currencies. Of this total, American banks accounted for around £100bn, and Japanese banks for some £160bn.

This is not to say, however, that foreign banks have found it at all easy to penetrate the domestic core of retail banking. High street banking is dominated by a handful of clearing banks and a much larger number of mutually owned building societies — each group having clearing deposits of around £100bn.

An attempt by the Hongkong and Shanghai Banking Corporation to buy the Royal Bank of Scotland was fought off several years ago. But Citicorp, which has been nibbling at the market for more than a decade, has now achieved the important step of direct access to the London clearing system.

And new building society legislation may enable societies to incorporate creating at least the possibility of future takeover bids by foreigners.

Generally speaking, foreign banks have found it easier to enter the domestic corporate market than the domestic retail market. The American banks, in particular, have developed a big business with corporate treasurers in currencies and in short and medium-term credit.

Longer-term capital is another matter, however. The British merchant banks have maintained their close connections with domestic companies, though they have concentrated increasingly on advisory and other fee-earning business and have been increasingly squeezed out of the wholesale money business.

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to buy 100 per cent, ahead of a complete restructuring of the market's trading systems on October 27.

Both the equity and gilt-edged markets will be affected. In some ways the more dramatic changes will occur in gilts, which will be turned into a look-alike version of the US Treasury Bond market. Almost half of the 29 initially approved market makers will be foreign-owned — though it remains to be seen whether all 29 will go into action next October 27, given general fears of cut-throat competition.

The new equity market will mirror many features of the screen-based NASDAQ market in the US. Many foreign-owned firms are expected to participate, and already 15 or so are booked up to the London Stock Exchange's SEAQ International screen system for trading foreign equities, this being something of a trial run for the main domestic SEAQ (Stock Exchange Automated Quotations) system which will also open for business on October 27.

American firms dominate the list of foreign entrants, but there are also Swiss, French, Canadian and Australian contenders and other European arrivals are expected.

The Japanese are also very interested, but they have been halted so far by an argument about the need for reciprocal access by British firms to the Japanese market. However, the first half-dozen foreign seats have now been allocated on the Tokyo Stock Exchange, and it looks as though the impasse is beginning to be broken.

Certainly the London Stock Exchange is becoming much more enthusiastic about foreign participation, and suggestions made a year ago about high entry charges have been severely modified.

A major factor behind this has been the setting up of an embryonic organisation of foreign securities houses — provisionally entitled the International Securities Regulatory Organisation — which in conjunction with the existing Association of International Bond Dealers (based in Zurich, but with most of its members in London) is talking of setting up an international equity market as well as restructuring the Eurobond market on more formal lines.

The formation of Isro reflects the proposal to reshape the UK's regulatory system for investment markets, roughly the same time as the stock market is reconstituted.

A new statute-backed body called the Securities and Investments Board is to be set up under new legislation now going through Parliament in the shape of the Financial Services Bill. This means that any firm dealing in investments in the UK — British or foreign — will need to be authorised.

Usually this will be done through membership of self-regulatory organisations recognised by the SIB, though the Bill also provides for direct authorisation by the SIB itself. Firms will have to satisfy fit and proper criteria, and comply with

various rules covering matters like solvency, surveillance and reporting. It will be a criminal offence for unauthorised firms to operate in the UK in a wide range of broadly defined investment markets.

Outside the securities trading field, the relevant areas will include the futures markets — where the London International Financial Futures Exchange is now, after three years, well-established as the largest futures market outside the US. Many foreign firms are represented in this market.

But while life grows, the much longer-established commodities futures markets are under something of a cloud, affected by weak prices, the effect of severe competition from the US exchanges, and the recent crisis in the tin market.

Investment managers will also need to register with an appropriate SRO, perhaps the mooted Investment Management Regulatory Organisation. London has established an important position as a base for global portfolio management, and a Bank of England survey last year indicated that at least £300bn was being managed, including around £80bn for overseas residents. Within this, the UK offices of foreign firms were running £12bn for overseas residents on a discretionary or advisory basis.

Marketing practices

Certain life assurance and mutual fund (unit trust) operations will also fall within the jurisdiction of the new regulatory framework, at least in respect of marketing practices. This is a competitive area, but several medium-sized life assurance companies have recently been acquired by foreign interests, and one of the biggest US companies, Aetna Life, is currently seeking to build up a presence in the market.

General insurance, meantime, is one of the most cosmopolitan sectors of the financial services industry in the UK. As with banking, the corporate market is easier to enter than the retail market where success depends on very large number of individual sales outlets.

Besides the companies there is also of course Lloyd's, which has been going through a troubled spell but which continues to attract investment money from increasing numbers of rich individuals in the UK and abroad.

North Sea link-up

NEK CABLES part of the Norwegian group, Norsk Elektrisk Kabelfabrik, moved in 1982 into a factory at Washington New Town in the north east which had been built originally for a TV broadcasting company.

Since then it has more than doubled its premises, injected a second significant tranche of investment in plant and machinery, increased its workforce fivefold and tripled turnover.

In the process the company, one of a number of Scandinavian groups which have crossed the North Sea to begin operations in the North East, has also introduced a ground-breaking Continental shift system.

The changes involve the replacement of a three-crew five-day working system to one utilising five crews in continuous working. This has raised total production hours from 5,500 to 8,500 hours per year with a single ten day shutdown over Christmas.

"I am very pleased with what we have achieved," says Mr Asbjørn Bjørvik, the Norwegian joint managing director responsible for production and financial control.

NEK manufactures over 0.5m metres of low voltage cable a week at its Washington plant. Its customers include the BBC (for studio cable), and computer companies such as IBM, ICL and Wang. Its cable is also being used in the System X telephone exchange system.

Mr Bjørvik hopes the site's turnover will rise next year to £2.5m from this year's £2.5m, and that it will be turning out 40 tonnes of cable a week next year against the 35 tonnes it managed through this year.

Oslo-based NEK was partly drawn to the north-east because of its traditional links with Scandinavia, good air communications between the two regions and the work done by the North of England Development Council in selling the north-east to the Scandinavians.

But it was also attracted by the 22 per cent government grants then available as a result of the region's special development area status. Total investment at the beginning was almost £3m. A further £4m has been put in with the floorspace increasing from 47,000 to 116,000 sq ft.

Mr Bjørvik is the only Norwegian on the site — the other joint managing director, Mr John Day, is responsible for sales and heads NEK's long-established sales company in High Wycombe, Buckinghamshire.

Norwegian personnel were in Washington acting as consultants during the initial start-up,

but all personnel other than Mr Bjørvik are British. Plant supervisors have had training in Norway but all training of the manual labour force is now done on site by British personnel.

Mr Bjørvik says he has found nothing surprising in NEK's experience in Britain. It has not been difficult to find trainable labour and labour relations have not been difficult.

NICK GARNETT

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Investing in Britain 7

Manufacturing sector shows resilience

Industry
IAN RODGER

THE STATE of UK industry has been a subject of constant and lively debate ever since people became aware two years ago that the country had become a net importer of manufactured goods.

The fact that the country which set off the industrial revolution—a country with few natural resources and a very large population and no longer able to support itself with the goods it made came as a shock to most Britons. And it has been causing increasing alarm in some quarters because of the impending loss of the past decade's trade surplus on oil.

The issue came to a head in October with the publication of a report by a House of Lords Committee on Overseas Trade. The report argued that the decline was due to low investment in, and the lack of competitiveness of, UK manufacturing over a long period, exacerbated in recent years by high rates of inflation, interest and currency. It predicted that unless the Government took steps to stimulate the economy and provide special support for industry, many manufacturing sectors would continue to decline.

Responding for the Government, Mr Nigel Lawson, the Chancellor of the Exchequer, could hardly have been more devastating. The report, he said, consisted of "special pleading dressed up as analysis, and assertion masquerading as evidence." His view was that British industry was in much better condition than it was five years ago, thanks largely to a more liberal environment provided by the Government.

He argued that, as the oil ran down, the exchange rate would decline and industrialists both in and outside the UK would realise that the country was a good place to make things again. There would be no need for the "cocoon of subsidies" proposed by the Lords committee to bring about a big increase in manufacturing output.

So which side is right? Only time will tell, but there is

already considerable evidence to support the Chancellor's view. Manufacturing industry undoubtedly is in much better shape than it was five years ago. Output per worker in manufacturing is 27 per cent higher than it was in 1980, largely because the Government has enabled managers to get rid of overmanning and the traditional rigidities in labour practices.

Cash flow has also improved steadily. Trading profits before depreciation of UK industrial and commercial companies rose from £40bn in 1980 to £57.5bn last year and there was a further 22 per cent surge in the first half of 1985.

The more vexing question is whether or not the shakeout of the past five years has caused the elimination or crippling of many sectors. And if that is the case, will it, as the Lords Committee claims, be very difficult to rebuild them?

It is certainly true that a few sectors, such as motorcycles, home entertainment products, photographic film, and special steels have all but disappeared. And others, especially motorcars, have seen dramatic declines in output in the past decade.

But the resilience of manufacturing has been greater than many people may suspect. From its last peak in the fourth quarter of 1979, manufacturing output had tumbled more than 15 per cent by the fourth quarter of 1982.

Since then it has been recovering steadily, and is now only 6 per cent below the 1979 peak. A few of the UK's strongest industries, such as chemicals, pharmaceuticals and electrical engineering, are already above the 1979 peaks.

It is always difficult to get clear measures of capacity. But it is encouraging that even though many sectors are now nudging up against their historic production records, few complaints are being heard about capacity constraints.

What seems to have occurred is that, while much old plant has been scrapped, manufacturers have found that they can squeeze much more output from less equipment, better management and more co-operative workers.

Also, there has been a resurgence in investment in new, more productive equipment. From the last peak of

£7.5bn in 1979, annual gross fixed investment by manufacturing industry dropped to £4.6bn in 1982, but recovered to £5.5bn in 1984 and grew by a further 5.5 per cent in the first half of 1985.

All this would seem to suggest that the mythical automatic regulator beloved by the current Government's economists can work. As the terms of trade move in Britain's favour, many British manufacturers may well be able to respond quickly and fully to demands for higher output.

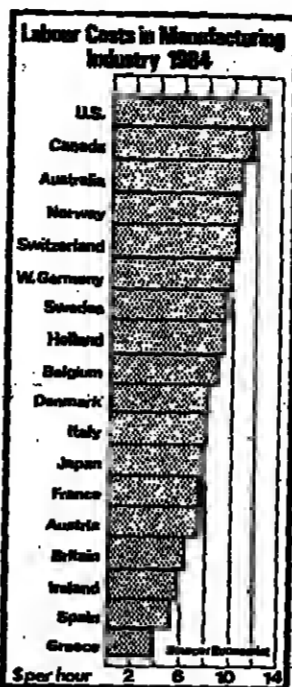
There is also some evidence that industrialists are already planning to increase output in anticipation of such an improvement. Probably the most clear-cut indication was the decision in October by J. I. Case, the U.S. farm equipment group, to launch a £90m, five-year investment programme in this country, involving the transfer of much of its manufacturing activity from the U.S. This programme alone is expected to generate an additional £150m in annual exports of manufactured products.

Farm equipment is one of the manufacturing sectors where the UK has remained very strong in recent years despite the difficult trading climate. Many other mechanical engineering sectors too have held their own.

Britain also remains a major producer of gas turbine engines. Indeed, Rolls-Royce has the only significant aero-engine technology outside the U.S. Similarly, Bristow Gas Turbines is one of the few non-US companies to make its own design industrial gas turbines.

Despite their upheavals in the past decade, the two largest final-product industries remain aerospace and automobiles. The automobile industry finally seems poised for some recovery from the slump of the past decade. Privatised Jaguar has been very successful as a result of a fresh commitment to quality and state-owned Austin-Rover has been making progress towards profitability.

As for the multinationals, Ford and General Motors, they, like Case, seem to have recognised that the UK will be an increasingly competitive manufacturing centre in the future. Ford, for example, is concentrating all its diesel engine



manufacturing for Europe in the UK.

British Aerospace too has seen its prospects improve, thanks mainly to the recent strengthening of its civil aircraft interests. Airbus Industrie, in which it has a 20 per cent stake, has built up a substantial order book in recent months.

For all the promising signs, it still remains to be seen whether UK manufacturers will be able to fill the gap that will soon be created in the country's trade balance by declining oil surpluses. There is no doubt that they are now, with considerable Government support and encouragement, doing all the right things—designing for more efficient manufacture, using new materials, adopting flexible factory automation technologies, and paying more attention to marketing.

But it is difficult to tell if they are doing them as rapidly and effectively as their overseas competitors. The performance of the so-called high technology sectors is a particularly puzzling case. The statistics indicate that the electronics industries are growing very rapidly, but hardly a day passes without evidence of leading British companies in these sectors—ICL, Sinclair, Rascal, Thorn-EMI, STC—being in trouble.

Perhaps the explanation is that their operations are now of less significance compared to those of foreign companies, such as IBM and Digital Equipment of the U.S., Sony and Hitachi of Japan, and many others, that are thriving. Time will tell.

Challenge of the post-oil era

Energy
MAX WILKINSON

THE LONG slow decline of Britain's oil production is likely to set in from this year, bringing with it the need for profound adjustments in the economy as a whole.

In just 10 years, crude oil production from the UK sector of the North Sea has risen from nothing to an average of about 2.7m b/d (130m tonnes) last year.

By the end of this year more than \$50bn (in current money terms) will have been invested in North Sea oil and gas fields, with the creation of some 100,000 jobs including those in associated industries.

In the next ten years, output from the fields now in production or being developed will fall steadily, and by the end of the century they will be providing only about 10 per cent of the current level of production.

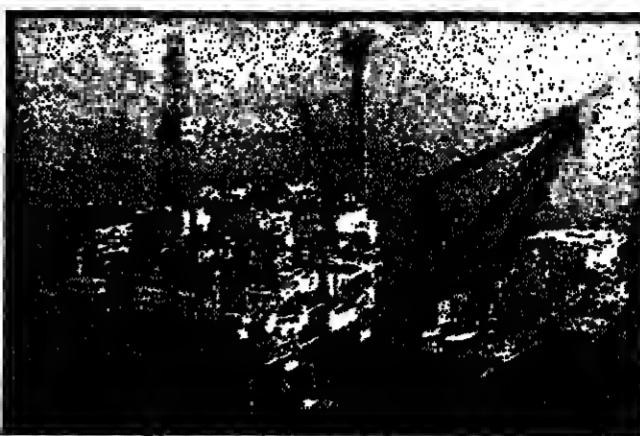
The major challenge for Britain in this period must be to re-build the strength of the rest of the economy, especially the manufacturing sector, to provide the export earnings needed to pay for the oil and other goods which will then have to be imported.

For one of the remarkable aspects about Britain's second major period of discovery of fossil fuel is that it was accompanied by a sharp decline in manufacturing industry. In marked contrast with the great development of the "workshop of the world" on the back of Victorian coal production UK manufacturing output fell by about 15 per cent during the much more rapid build up of oil production from 1970 to 1981.

The decline of manufacturing, which has not been completely reversed in the steady recovery since 1981, cannot be linked in a naive way to the rise of oil. The sharp change in monetary policy in 1979 and long-standing structural weaknesses clearly contributed.

But the loss of competitiveness as rising oil production helped to strengthen the exchange rate in 1979-80 clearly was an important factor. It points to the essence of the problem which Britain will face in the years ahead.

Just as rising oil output pushed the UK balance of payments into surpluses far greater than at any time in post-war



Production platform in the Forties field. By 1986, North Sea oil output will fall steadily.

history, so the decline of oil must reduce the surplus with a consequent pressure on the exchange rate.

If this process is gradual enough, manufacturing industry may be able to rebuild its strength by exploiting its improved international competitiveness. But if the exchange rate were to come under sharp downward pressure the Government might well feel obliged to tighten its domestic policy to defend its inflationary strategy, with adverse consequences for industry.

Much therefore depends on whether the downward slope of North Sea output for the rest of this century will be gentle or steep. The current weakness of the oil market is also important for Britain since any sharp decline in prices could precipitate a fall in sterling.

In the longer term, weaker oil prices could reduce the incentive to develop new fields and so reduce the supplies available to Britain in the late 1990s.

The sharp decline in development activity in 1980 and 1981 pointed up this anxiety and led the Government to ease the North Sea tax regime in the 1982 Budget, when new fields became exempt from the 12½ per cent royalty payment. After that development picked up quickly.

Although it has become fashionable to analyse the future of "Britain without oil," the outlook is by no means all bleak. The 34 oil fields which were in production or under development by the end of 1984 are likely to keep the UK self-sufficient in oil until the early part of the next decade.

Future discoveries and production developments could extend that period considerably, perhaps even to the end of the century if UK demand for oil continues to decline and North Sea development is at the upper end of present expectations.

While it seems unlikely that any new discoveries will come close to the spectacular find of 270m tonnes of reserves in the Forties field in 1970, advances in deep sea technology and in recovery techniques could still have a major impact on the total reserves. However, future developments seem likely to be mainly of smaller fields of around 10 to 15m tonnes.

Britain's proven oil reserves in fields under production are now put at 1.45bn tonnes. Probable reserves (those which have a 50 per cent chance of being exploited) could bring this figure to about 2m tonnes (14bn barrels), with "possible" reserves adding a further 850m tonnes, according to Arthur Andersen, the US accountancy firm.

At current rates of consumption, this would be enough to supply the UK's oil needs for between 17 and 35 years, although government policy is to maximise output at well above the UK consumption needs.

Proven gas reserves are put at about 47 trillion (million million) cubic feet, with perhaps a third as much again which may possibly be extracted. This is the equivalent of about 30 to 40 years of current UK consumption. However, about a quarter of Britain's gas requirements are imported from the Norwegian sector.

Now that this huge industry is nearing its peak, increased

attention is being given to coal, Britain's other great energy resource.

When the oil runs down, the UK will still have plenty of coal—perhaps for 150 years or so. The big question is whether this industry, plagued by strikes, poor morale and declining productivity can modernise fast enough to meet the challenge as gas becomes more expensive and oil becomes scarcer.

Since the end of the 1964-65 strike, the industry does seem to be showing signs of greater realism. The National Coal Board's labour force has been reduced from 187,000 in 1983 before the strike to 155,000, with output per man shift in September some 8 per cent higher than the average for 1983. However, absenteeism is still high at nearly 15 per cent, substantially more than in the earlier years of this decade.

In the domestic market coal will have a tough fight for some years against the superior convenience of gas. However, gas prices are certain to go up as cheaper supplies from the southern basin of the North Sea are exhausted and replaced by supplies from more expensive fields. This will no doubt increase the attractiveness of coal and oil for industrial users.

In the generation of electricity the choice between coal and electricity will depend crucially on outcome of the lengthy inquiry into the Central Electricity Generating Board's plans to build a pressurised water nuclear reactor at Sizewell on the Suffolk coast.

The board would like this to be the first of a family of nuclear power stations which would raise Britain's dependence on nuclear generation from about 8 per cent to 42 per cent by the year 2020. This would leave coal fired generation capacity at about 50 per cent, its present proportion, as the oil fired stations were gradually scrapped or converted to coal.

One of the political lessons from the recent miners' strike was the need to secure a diversity of power sources. The oil fired stations rescued the Government in 1984-85, but other wise there seems little prospect that they can ever again earn their keep.

The nuclear programme is therefore seen as a political insurance as well as being a source of relatively cheap energy when the oil begins to run out.



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Adherents flock to science park banner

Academic Links

ANTHONY MORETON

ANY INVESTOR or business man wishing to set up facilities on a science park has an enviable choice in the UK.

Even if the choice is strictly limited to those which have links with universities the investor could go to a park from Dundee in the north to Brighton on the south coast. There is an even wider choice if the field is not restricted to university-linked parks.

There are at least 25 science parks associated with universi-

ties. There are others attached to centres of higher learning outside the universities and there are still others which have the backing either of major public companies, new towns or commercial property organisations.

This gives the potential investor enormous choice because each park has a different conception of its role. Most of those founded by, or linked with, universities believe that science parks should be centres for the transfer of technology.

The UK Science Parks Association has defined a park as being a place where "a collection of high-technology industrial companies or research institutes are situated in attractive, well-landscaped surroundings, developed to a very low

density, situated near a major scientific university and enjoying significant opportunities of interchange with that university. They are a means of bringing suitable industry and applied research close to the sources of scientific progress."

Not all the parks follow this definition rigorously. At Cambridge, for instance, the first and still the biggest science park in Britain, with some 55 tenants, there are several large companies. The largest is Napp Laboratories, the US-owned pharmaceuticals concern which, while concerned with high technology and drug research, is also a commercial producer. There are others on the park, some three miles from the centre of Cambridge, close to the main ring roads, whose role is

slightly different. "Our park is not a separate entity from the university," according to Mr Ian Dutton, who runs the Heriot-Watt Research Park associated with Heriot-Watt University in Edinburgh and chairman of the UKSPA.

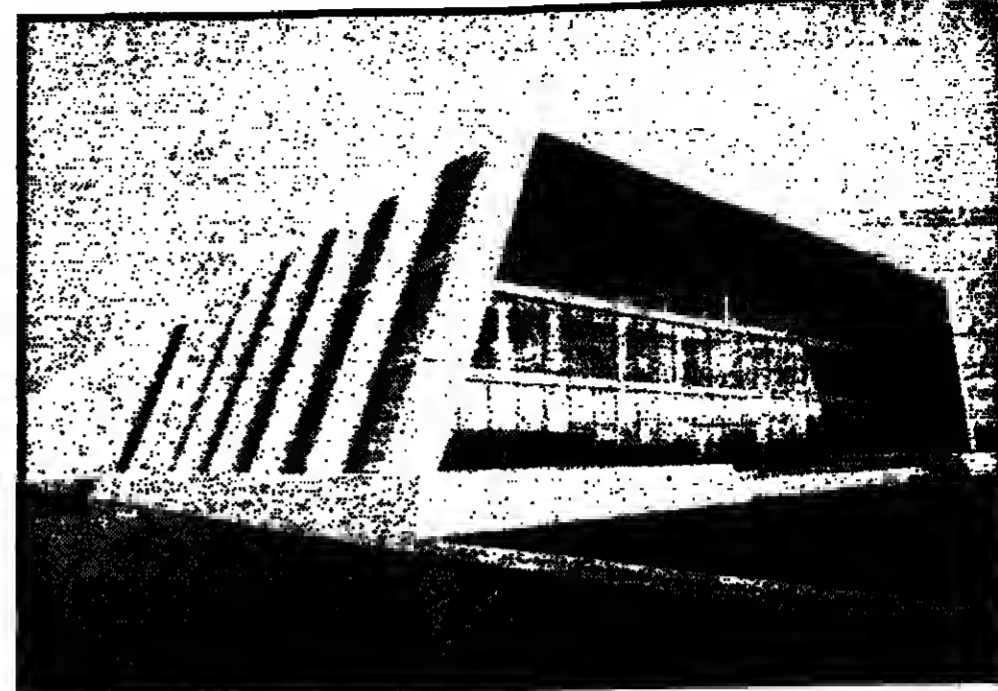
"It is one aspect of the technology transfer that takes place here. If a company on the park gets to the point where it begins to be involved in mass manufacture then we would expect it to move on, to find a larger site somewhere else."

Heriot-Watt is not alone in this approach. It is shared by Brunel, on the western side of London near Heathrow airport, and Springfield House, attached to Leeds University, among others.

This approach may have come about because most British university-linked science parks are relatively small. Cambridge covers 130 acres, Surrey 70 acres and Heriot-Watt 56 acres but the average size is represented more by Sirling's 14 acres, Loughborough's three and East Anglian's 12.

Some science parks—Bradford, Leeds, Merseyside (associated with Liverpool University and Liverpool Poly) and Durham—are essentially single buildings so that the scope for the emergence of larger buildings is constrained.

Not all the science parks would accept the university-inspired definition, though. Warrington's Birchwood



More than 50 companies are now based at the Cambridge Science Park. Among them is the £20m complex (above) for Napp Laboratories which houses the pharmaceutical company's research, production and distribution facilities. A special six-page report on the renewal of interest in UK science parks appeared in the Financial Times on Saturday, November 30, 1985

Science Park sees itself as part of the science park structure even though it is not, strictly, associated with a university and is certainly not in university grounds. The Mid-Glamorgan High Technology Park, at Bridgend, in south Wales has been funded by the county council and the Deeside Park at Wrexham in north Wales has been developed by the Welsh Development Agency.

Within Liverpool, Plessey, one of the giants of the British electrical and electronics field, has been instrumental in developing Wavertree, and at Bristol Avco West has been set up and run by a property company, primarily as a real-estate operation. It is conceivable that when these parks are fully developed they will be able to contribute to the development of high-technology industries just as much as the more "pure" science parks.

Such a dichotomy of thought could only arise in Britain. There is no way it could happen in the US, where science parks originated at Stanford in California and around Boston, Massachusetts, in the 1960s. Americans believe that if a company starts in a small way associated with a university

department and grows to an appreciable size it should not necessarily have to move away from the university solely because of that growth.

Stanford now has companies on it employing thousands of employees. Boston has spawned high-technology industries in a wide arc, associated with Route 128, around the city.

The difference, according to Mr Russell Cox, chairman of MIT Enterprise Forum, of Boston, is one concerning "cultural and entrepreneurial values."

The difference, he believes, "is not a matter of Europeans being unable to invent things or produce things. They can do it as well as people in the US."

"What they do not do is turn those inventions into things with the same rapidity. We do not lay down rules about what should or should not be produced on a park. We just believe that if a company can grow good luck to it."

The closest place in the UK that approximates to Boston and Route 128 is Cambridge with its Cambridge Phenomenon, the sucking-in of high-technology industries into and around the university city. But the Cambridge Phenomenon

has not depended on the Cambridge Science Park, even though they have grown over much the same period.

The Cambridge Phenomenon occurred because a large number of companies, few of which originated in the university, decided to set up operations near the university so that they could offer attractive living and working conditions for their employees and operate in an industrially high-class environment.

The wide choice of sites now available in Britain is a recent happening. Although both Cambridge and Heriot-Watt have been in existence for over a decade the big growth has been in the last four years and owes as much to negative factors (a need to find other universities following government financial cuts in 1981) as positive (the drive by the government in 1967 to set up the parks).

...renewal has not by any means grown to a halt. Many of those associated with universities are in their infancy and there is a lot of growth to come. Outside the universities there are others in hand. For the potential investor Britain's site offers an almost embarrassing choice.

Criticism brings policy changes

Education and Training

ALAN PIKE

THE EDUCATION and training systems are occupying a prominent position in the debate about Britain's future economic success.

Education and training are increasingly being treated as two parts of a single subject—a reaction to past criticisms that there had been too great a gulf in Britain between a highly academic education system and an under-developed system of training.

Several factors have recently begun to bring the two elements of the system closer together. These include:

● Rapid changes in technology, producing a need for new skills to be acquired throughout working life.

● Government desires to make education and training more responsive to the needs of industry.

● Pressures for change generated by youth employment which has, in Britain like the rest of the EEC, been running at historically high levels during the late 1970s and 1980s. It is not only the schools and universities but also employers are critical of the system for allegedly not meeting the needs of industry. The British Government is attempting to respond to the criticism with a number of policy developments, one of the most important of which is the Technical and Vocational Education Initiative (TVEI).

This scheme, currently operating or being introduced in most local education authority areas on a pilot basis, offers a new combination of theoretical and practical technical education for 14-18 year olds. Employers

have been offered a unique opportunity to work alongside teachers in curriculum development for the new courses, and Ministers believe TVEI will prove a stimulus for major reform in Britain's secondary schools.

A major drive to reform courses which are relevant to industry's needs is one of the themes of the Government's higher education Green Paper, The Development of Higher Education into the 1990s, published last year.

Academics and opposition politicians have, however, been strongly critical of the Green Paper, saying that its outlook will leave the country with an under-funded and contracting system of higher education.

Recent research has warned of a growing shortage of graduates to work in advanced technology sectors of British industry, and the Government has responded to this by trying to achieve a switch in student places at universities and polytechnics from the humanities to science and technology. Initial evidence shows that there will be resistance in many colleges to the levels of reduction in arts subjects which would be required to achieve the switch.

Powerful campaign

Skill shortages are not confined to graduates. The engineering industry, for example, faces shortages of craftsmen and technicians between now and the end of the decade and the end of the factors behind a powerful campaign to reform Britain's system of industrial training.

By any standards of measurement industrial training in Britain is under-developed compared with its leading international competitors. A survey conducted for the Manpower Services Commission indicates that the average British company spends only 0.15 per cent of its

sales turnover on training employees. Levels of 3 per cent are common in the US, Germany and Japan. State spending on training in Britain is relatively high—the shortfall is caused by the lack of investment by employers.

The need to reform industrial training in Britain is taking place around a three-pronged New Training Initiative devised by the MSC and Government. The three objectives are to reform traditional apprenticeship training, to change the way in which school leavers are prepared for work and to revitalise adult training.

Considerable progress has been made during the past few years in replacing time-served apprentices with training to modern, relevant standards.

Two years ago the Youth Training Scheme was introduced—Britain's first attempt to give all school leavers who do not continue into higher education a systematic preparation for work. Next year YTS is being extended from one to two years.

Britain had, prior to YTS, become increasingly isolated among industrial nations in allowing a majority of its young people to go straight from school to work without any formal vocational preparation. YTS has so far proved more successful among unemployed young people than those who find jobs, and the MSC's next objective is to develop the scheme into the natural route to work for all school leavers.

The scheme has also provoked a review of vocational qualifications which is now in progress. The successful launch of YTS has been achieved partly by the use of Government money to assist employers with the cost of taking on trainees. In the field of adult training the Government and MSC have concentrated on trying to convince employers that they should invest their own money, and progress here has been slower.

Surveys continue to show that British employers are generally less willing than their rivals overseas to see training as an essential business investment. In Germany, for example, it is common for up to half of a company's workforce to be undergoing skills training at any time, while about one-third of the working population in the US are involved in vocational education and training.

Japan—with a generously funded education system—has a culture of training deeply rooted in its industrial sector.

Persuasion

The present Government has preferred to use persuasion rather than compulsion in its attempts to improve industry's training performance. Most of the statutory industrial training boards were abolished four years ago, and replaced with voluntary arrangements of varying degrees of effectiveness. This contrasts with the position in Germany, where the training system is run by employers through chambers of commerce with statutory backup, and France where there is a national training tax.

The voluntary approach reflects the Government's view that employers are the main beneficiaries of training and should therefore finance it and run it. Efforts are being made to bring together groups of employers to examine and respond to training needs at local level, and to improve links between employers and further education colleges.

There are also a growing number of schemes designed to take advantage of new technology to deliver training in more flexible and imaginative ways. One of Britain's real post-war educational achievements has been the Open University, and an Open Tech has now been founded to use similar distance-learning methods to offer retraining for adults at technician level in industry.

From railways to shopping ways

The Victorians knew the importance of choosing a prominent City Centre position for their railway stations and Bradford's Forster Square was no exception.

It is strategically located between the City's retailing and commercial sectors—linking the two.

The Railway Station has declined with the opening of Bradford's and Britain's biggest travel interchange less than 400 yards away, with the result that this prime 26 acre site has been given planning permission by the local Council for a number of different high quality development options.

These could include retail outlets, DIY and Garden Centres, Vehicle Sales, the sale of heavy and bulky objects with provision for long and short stay car parks. But retailing alone could not develop the site's full potential, so it is envisaged that leisure facilities, pubs, restaurants, exhibition and conference centres, offices and warehousing could be incorporated within the scheme.

Direct links with new car parks and Bradford's existing shopping areas could be achieved with a 'pedestrian tube system'—a moving conveyor above street level.

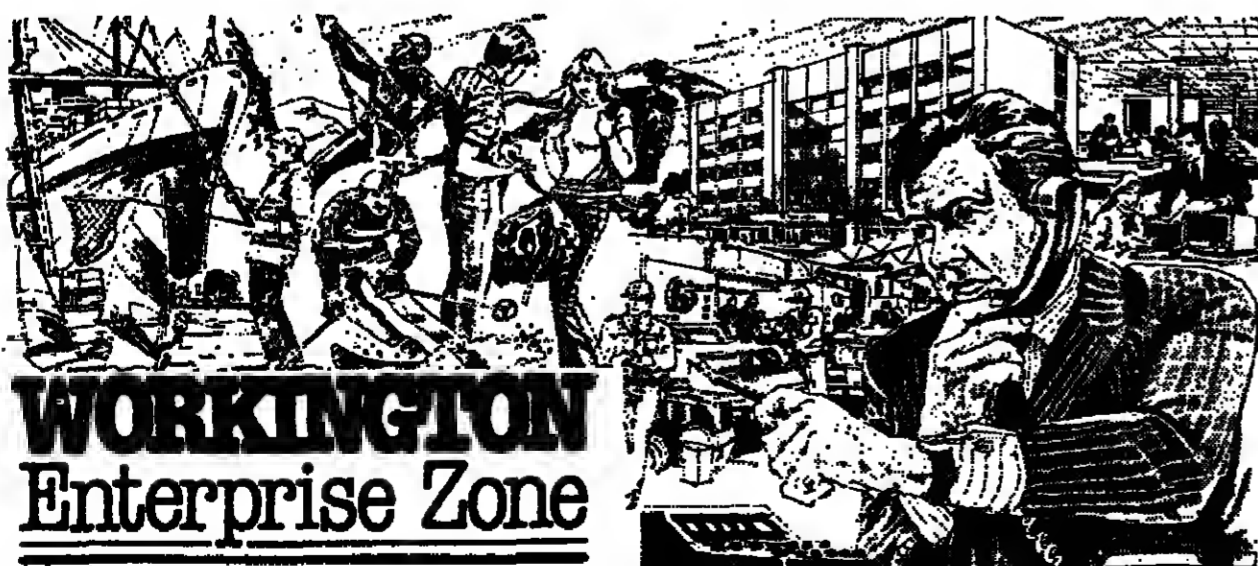
Work has already started on a

new road link which will connect the car parks directly with the M62 & M1 Motorways and other arterial routes.

For details of this and many other exciting development projects contact: Chris Mellors, Room 4, Bradford Economic Development Unit, City Hall, Bradford, BD1 1HY. Tel: 0274 753789 or Peter Eccles, Room 4, British Railways Property Board, Hudson House, York, YO1 1HP. Tel: 0904 53022.

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Birmingham
THE BUSINESS CITY

Investing in Britain 9

Job fears temper shopfloor climate

LABOUR RELATIONS in the UK used to be characterised in the term the British disease — a lack of commitment to work and to the company, translated into an apparent readiness to strike virtually instantaneously, on often the thinnest — if any — of pretexts.

Foreign investors in the UK seemed especially prone to outbreaks of the disease: seen as distant, wealthy multinationals, they were a political, as well as industrial target, for the militancy in the 1970s which lay behind certain trade union thinking and approaches at that time.

That British labour relations have undergone a sea change might be hard to tell in a year which has seen some of the most violent-ever scenes in a UK industrial dispute — the 1984-85 miners' strike — pumped nightly into people's general lives through the TV screen, but it has.

In international terms, the facts bear it out. The UK occupies today a middle-ranking international place in terms of days lost through strikes (though some of its most important competitors — West Germany, France, Japan — are below it), and though the CBI, the employers' body, is concerned that its labour costs are rising in comparison with competitor countries, they start from a low base: a survey by Institut der Deutschen Wirtschaft (IDW), the West German employers' research body of comparative labour costs in 18 leading countries places the UK 15th, with its costs much lower than those of the US (1st), West Germany itself (6th) and Japan (12th).

Co-operation

That such international trends, combined with the UK's position as a point of entry into the EEC market, have not escaped foreign investors is clear from the number which have established manufacturing plants here: IBM in the south and Scotland, followed there by a host of US semiconductor companies; the Japanese in south Wales, and elsewhere too.

Labour relations were a problem in these companies' thinking — but not an overwhelming one. Forthcoming research by Professor John Dunning of Reading University on Japanese investment and practices in the UK shows industrial relations to be a consideration in siting here, but less of a minus factor than, for instance, problems of product supply and quality.

Primarily, the change in UK labour relations has been enacted by the sharp rise in British unemployment, from a national average of 5.8 per cent (some 1.32m people), when the Conservative Government came to power in 1979, to 11.7m now.

Its impact has been widespread, reducing strikes at one end of the spectrum, and helping to engender forms of work-force co-operation unthinkable in the UK ten years ago. It has elapsed, for instance, union membership rolls, down almost 20 per cent from their 1979 levels. In the 1970s when UK unions were at the zenith of their power, the leader of the largest union, the transport workers, was seen in opinion polls as more powerful than the Prime Minister.

Falling numbers — and, more importantly, the decline in the unionisation of the workforce — have led to tightening finances, and to unions adjusting their sights, and their ambitions.

That the Government has acted

Working Days Lost

Working days lost by industrial disputes per 1000 employees, 1983

Italy	960
Spain	590
Canada	460
Ireland	400
Finland	380
New Zealand	350
Australia	220
United Kingdom	177
France	90
Denmark	40
Sweden	40
Netherlands	30
Japan	10

Source: Department of Employment Gazette, 1985.

very sought to promote this is clear: elected in substantial part on a platform to reform Britain's unions, the Conservatives set about it with a will but with intelligence. To their piece-meal, step-by-step approach, building for them gain upon gain, has left the unions mostly pondering for a practical and adequate response.

Apart from the legal changes in permitted behaviour which have seen supportive industrial action extensively curtailed, unions made financially liable for their actions, and ballots required before strikes, the central change has been one of attitude.

The effects have been enormous. At local level, for instance, faced with the acute reality of the recession — jobs going, plants closing — union members have been prepared to reach radical new agreements which provide for a sweeping away of old-style demarcations, with complete interchange of jobs, in such sites as Shell's Carrington plant in Manchester, or Borg Warner in south Wales. Even strike-free deals have been mainly but not wholly signed by the EETPU electricians union, principally with the Japanese, in high technology plants such as Toshiba in Plymouth or Sanyo in Lowestoft.

These agreements can be likened to another development, the acceptance of new forms of more flexible working, such as the development in some companies of a "core" of permanent employees supported by part-time and other workers on the periphery.

At national level, the changes haven't been so thoroughgoing. Indeed, like the recent internal TUC row over accepting Government money for union hallots, it's arguable that the changes to date would not have taken place but for an upward movement, an osmosis from the members to the leaders. But change there has been; in particular, the 1983 General Election result, showing the largest-ever number of union members not voting for the Labour Party, severely discomfited union leaders.

It forced them, through the TUC, into a major and still continuing reconsideration of their whole strategy and purpose.

Britain's unions still face problems — of legitimacy, of credibility, and of membership in trying to break into the new, expanding service and high-tech centres, and in trying to deal with growing non-unionism.

Philip Bassett

ATTRACTING INDUSTRY TO SCOTLAND

A new challenge

LOCATE IN SCOTLAND operates from the offices of the Scottish Development Agency, the semi-official industrial promotion body for Scotland. It combines the promotional resources of the SDA with the grant-giving capacity of the Government's Department of Industry for Scotland.

Foreign companies can get both information and government financial assistance from LIS which has eliminated some of the counter-productive, competitive marketing by the various regional bodies such as the five Scottish new towns or the regional and district authorities, likely otherwise to join a queue of applicants outside the offices of big US electronics companies.

LIS has the advantage of offices in Stamford, Connecticut, Chicago, Houston and San Francisco, to provide forward intelligence on industrial developments and possibly mobile companies. The SDA has had to fight to keep the offices in the face of pressure from London to centralise the entire UK inward investment promotion activities.

In Glasgow at the headquarters of the SDA, Mr Ian Robertson, the body's director points to increasing competition from development authorities in France and Germany as a new challenge.

Problems have been created recently, too, by the rise in the sterling exchange rate. This has come on top of last year's review of regional assistance for industry which greatly reduced the area in Scotland qualifying for automatic grants

in favour of a more selective approach.

The change has worried the SDA which fears that this, coupled with the recession in electronics, will reduce the flow of companies moving into Scotland.

Mr Robertson and others are confident, however, that the pressure on US companies to reduce costs and penetrate the European market by establishing bases abroad will continue. Inward investment is also seen as a major stimulant for indigenous industry. The supply industry serving the big US and Japanese electronics companies like IBM, NEC and Motorola is getting bigger and, in the view of the SDA, has now achieved growth momentum.

The ideal combination for Locate in Scotland is the company ready to set up a research and development facility in Scotland which will draw on the resources of the country's universities and technical colleges. Because R & D is brought in more management jobs are created and the company sets down deeper roots. It is the pure assembly operations which get closed when the parent company goes through a bad patch.

Companies like Hewlett Packard in South Queensferry and NCR in Dundee have developed new product lines in Scotland providing jobs and drawing engineering talent which might otherwise have gone south or even abroad in search of work.

Mark Meredith

Location Preference

Order of preference by the US electronics industry

Ranking	Previous year's ranking	Country	Number of companies out of 295 that have either chosen or shortlisted the country in question
1	1	UK	84
2	3	Ireland	50
3	2	W Germany	49
4	5	Mexico	37
5	10	Japan	35
6	4	France	30
7	8	Netherlands	28
8	7	Taiwan	26
9	6	Canada	22
10	14	Belgium	17
11	11	Spain	16
12	18	Austria	15
14	9	Italy	14
15	16	Barbados	12
	17	Switzerland	12



Mr George Younger, Secretary of State for Scotland.

"They had different presentations, and the presentation centred around money. The German presentation was effectively done but the problem would have been with the language and with the overhead costs, it would have been expensive," Mr Morrison states.

Locate in Scotland followed up its initial package with proposals for possible plant sites. Inward investment had largely tended to favour other new towns like East Kilbride, or Livingston. But Irvine had what SCI wanted: a building in place and space alongside the plant for expansion.

Financial incentives from government were a stimulant but not the deciding factor according to Mr Morrison. "It was more like the icing on the cake," he says.

While this arrival demonstrated secondary growth of support industries for electronics — a Japanese silicon producer Shin Etsu was to follow — SCI on paper seemed to have one drawback.

The US company did not bring with it a commitment to

research and development which the planners wanted to see in inward investment. These facilities are seen as requiring a higher calibre of management and drawing on the academic resources of Scotland.

A research and development operation also means putting down greater roots and makes a company less vulnerable to closure when the US or Japanese parents fall on hard times.

Mr Morrison denies, however, that SCI is a "branch office" liable to closure. The nature of business, making components for other manufacturers does not require research staff. SCI carries out work under contract, most of it loading printed circuit boards for the big Scottish-based producers. The plant employs about 400 staff.

Equal weighting

"We rise and fall on the level of success we have in operating market conditions. SCI will not pump in money regardless, but we have no problem with new investment if it is justified," he says.

A foreign plant's commercial performance is the real commitment in Mr Morrison's view. "We have an equal weighting with industry in the States. If we have a good order book, this would not be transferred to the States and the plant shut down."

The corporate structure of SCI means each plant is responsible for its marketing and overheads, which encourages autonomy and local initiatives.

Locally based marketing has been a benefit in the current slump within the electronics industry in the US. The European market has not declined by the same extent, and demand has been sustained.

M. M.

Why SCI found the package attractive

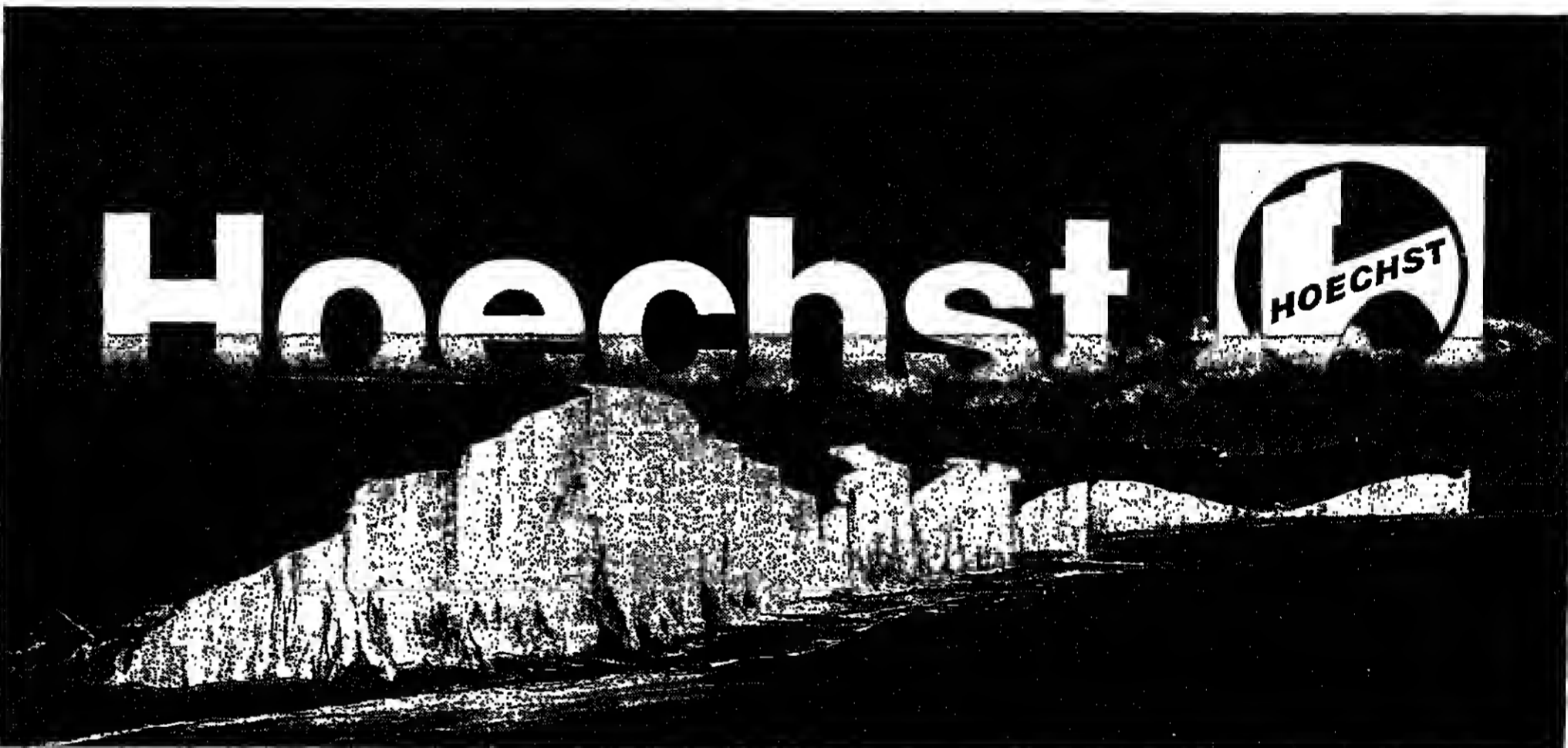
THE SCOTTISH electronics industry got a boost with the arrival of SCI of Alabama.

From its base in Irvine New Town in the southwest of Scotland, SCI manufactures components for the rest of the industry. Its decision to set up shop in Scotland demonstrates the encouragement given to companies to service and support the big multinational pro-

ducers already present.

Mr Sandy Morrison, a Scot who is managing director of the \$12m SCI plant, recalls that the infrastructure in Scotland supporting high technology companies was the chief incentive. The plant, the skills, and the back-up were there, he says.

The West Germans, French and Irish were also competing hard for mobile US companies.



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Investing in Britain 10

Freeports

Name	Area (acres)	Management	Number of companies in occupation†	Opening date*	Value of goods handled‡	Contact
BELFAST	72.5	Northern Ireland Airports	1 with 2 in offing	Dec 1985	n/a	Mr F. McGonaghan (0232) 229271
BIRMINGHAM	11.54	West Midlands Freeport	none	mid-1986	n/a	Mr R. Taylor (021) 767 6825
CARDIFF	40.0	Cardiff Free Port	several potential	mid-1986	n/a	Mr R. Carroll (0222) 489121
LIVERPOOL	600.0	Mersey Docks and Harbour Co.	2	Dec 1984	21m	Mr F. Robotham (051) 260 2820
PRESTWICK	35.08	Freeport Scotland	2 + public warehouse soon	April 1985	n/a	Mr Kelly (0292) 74883
SOUTHAMPTON	22.01	Southampton Free Trade Zone	none but public warehouse in operation	Nov 1985	n/a	Mr A. Kenil (0703) 335995

* Designation date for all freeports was August 6 1984; these dates represent opening of actual operations.
† Business is transacted in two ways, namely, owner/occupancy of private warehouse facilities or use of public warehouse system. At this early stage a lot of business is carried on through the public warehouse systems, by so-called "free zone traders."
‡ Phase I. Expansion in Phase II involves further 13 acres.
§ Options available on a further 142 acres.
|| Phase I, with 500,000 sq. ft. of existing warehouse facilities.
¶ Phase II (next year) will make available a further 54 acres.

Research: Sue Hopkins.



A reshaped telecoms system and unmatched international air services are important assets. Investment has also been taking place in ports, road and rail facilities, and a fixed link to the Continent is now in prospect.

Competition dials up new range of services

DURING THE past five years, Britain's telecommunications industry has been radically reshaped by a series of sweeping policy changes unique in Western Europe.

The changes have led to the removal of the far-reaching statutory monopoly of British Telecom (BT), formerly part of the Post Office, and the opening of the UK telecommunications market to competition.

The Government has licensed Mercury Communications, a subsidiary of Cable and Wireless, to build and operate a second national telecommunications network and authorised two rival consortia to run cellular mobile radio systems.

These moves, which got under way in late 1981, were followed in November 1984 by the sale to private investors of just over half the Government's stake in BT. The share issue, the largest anywhere in the world, raised almost \$4bn.

The British experiment has undoubtedly produced some tangible benefits, notably by stimulating the introduction of a wider range of competitively priced products and services. But it has also been marked by considerable controversy, particularly over BT's place in the new industrial order.

By far the most striking result has been the response of BT, long a bloated and inefficient bureaucracy which treated its customers with an indifference verging on downright contempt. It had originally been thought that the organisation would be thrust into disarray once the market was opened to competition.

Instead, BT has displayed remarkable resilience and commercial aggressiveness. It has launched a battery of new products and services backed by energetic marketing campaigns, accelerated its investment programme and begun to tackle some of its most glaring deficiencies such as long waiting lists.

It has cut tariffs for some of its most profitable operations, such as long-distance and overseas services, and is competing vigorously to win international traffic from neighbouring European countries. About a third of large US companies operating on this side of the Atlantic hub their European communications networks in Britain.

Internally, BT has reorganised its monolithic operations into decentralised profit centres and started to introduce proper financial and management information systems. Its huge staff of 230,000 people has been trimmed by 17,000 people.

BT has also shown a much more demanding attitude towards its suppliers. It has begun to drive a harder bargain over price, quality and delivery and to spread its purchasing beyond traditional suppliers such as Plessey and GEC.

Tougher market conditions and the mounting development costs required by telecommunications manufacturing have begun to spur industrial rationalisation moves. In early December, GEC made a £1.18bn bid to acquire Plessey, which with GEC makes the System X digital exchange. At the time of writing, Plessey was resisting the bid.

Contrary to the Government's hopes, however, new UK manufacturers have not sprung up to take advantage of market opportunities. The main beneficiaries so far have been foreign companies, such as Sweden's L. M.

Telecoms
GUY DE JONQUIERES

Ericsson, which is supplying BT with digital public exchanges.

Further controversy has been generated by BT's £180m bid last year for 51 per cent of Canadian equipment manufacturer, Mitec. Though BT insists that it is mainly interested in Mitec's international operations, the Government decided, after heavy lobbying by GEC and Plessey, to refer the bid to the Monopolies and Mergers Commission.

So far, BT has managed not only to maintain its market dominance but even to extend it in some areas. When shares in the company went on sale, critics accused the Government of doing little more than privatising a monopoly. They argued that the Government's goal of ensuring a successful sale to large numbers of investors contradicted its commitment to curb BT's monopoly and encourage competition.

No competitor of anything like equal size has yet emerged to challenge BT. However, its grip on the market may begin to loosen in the next few years as a result of the activities of the 18-month-old Office of Telecommunications (OfTel) and of Mercury.

OfTel is the government agency charged with regulating the telecommunications market and ensuring that BT and other participants observe the terms

of their licences from the Government. BT's licence contains special conditions, including obligations to maintain a national telephone service and to keep the average annual tariff rise for many of its inland services three percentage points below the retail inflation rate.

Though OfTel has the power to prosecute offenders and to change their licences, it is not authorised to license new entrants into the market. This authority remains with the Department of Trade and Industry, which has pledged that BT and Mercury will remain the sole operators of telecommunications networks until 1989.

Nonetheless, OfTel and its director general, accountability professor Bryan Carsberg, have started to make an impact. OfTel's most important action so far was its ruling late in 1984 on the arrangements for the inter-connection of the BT and Mercury networks.

This was a crucial issue for Mercury. Though the company has almost completed building a modern optical fibre trunk network linking major English cities, it has few local circuits of its own. It must therefore rely heavily on using BT circuits to reach customers located far from its own trunk network.

The OfTel ruling, which met most of Mercury's demands, has transformed the company from a struggling newcomer into a vigorous business which is expected to have annual turnover of several hundred million pounds by 1990. BT, not surprisingly, was displeased, though it decided not to challenge the ruling in court.

BT has met obstacles on other fronts, too. Its proposal to launch jointly with International Business Machines (IBM) an advanced data communications network was rejected by the Government in 1984.

During the next few years, UK policy seems likely to have to continue striking a balance between the interests of telecommunications users, BT shareholders and the supply industry. Experience to date suggests that this may prove quite a taxing task.

Further ahead, the prospects are clouded with many uncertainties. The Labour Party has said it will rationalise BT if it regains power though it will not be a high priority.

If that happens, the government is expected to return to power it will review its telecommunications policies in 1989.

More modernisation plans in pipeline

Ports

ANDREW FISHER

THE UK has some of the most modern cargo-handling facilities in the world, but the ports industry has gone through some traumatic changes in the past 20 years.

The advent of containerisation in the 1960s was a major test of ports' adaptability, as was the jump in trade with the EEC when the old Commonwealth links lessened in importance.

Along with these structural shifts has come a sharp drop in employment, as ports have

re-equipped and sought to become more efficient against strong, and often subsidised, competition from the Continent. The ports which have flourished most in recent years are on the south and east coasts, best placed for trade with the rest of Europe.

Felixstowe in Suffolk, by spending \$47m on expansion, has become prominent in container handling in a fairly short time. Liverpool, in the north-west, has had to come to terms with a lesser role.

Rivaling Felixstowe, but having had to overcome a year ago the burden of over-manning and outdated working practices which had left its costs too high, is Southampton, also a major cruise shipping port. Both ports handle some of

the biggest container shipping companies in the world. Evergreen of Taiwan, one of the heaviest recent investors in new ships and equipment, calls at Felixstowe, which is seeking parliamentary approval for even more expansion in later years.

Closest to the FEC is Dover, not a container port in the traditional sense, but handling a variety of roll-on/roll-off cargoes which makes it the busiest ferry port in the world. It has a heavy investment programme to extend cargo and passenger facilities.

It is Dover, and other Kent and Sussex ferry ports, which have to face the hardest challenge to the industry in the next decade—the probable building of a tunnel, bridge or

combination of the two between England and France.

Dover handles around 14m passengers a year and plans to invest up to £200m in the next 15 years or so. Its traffic is set to move ahead in coming years, especially as Townsend Thoresen (part of European Ferries) is investing £70m in two new jumbo ferries and other lines are also expected to add capacity.

But a fixed link would knock a big hole in the business of Dover and the ferry companies, and both have argued strenuously against such a project. European Ferries has claimed that its new generation of ferries will operate so cheaply as to undermine the economics of a tunnel or bridge. Most UK ports, however, are

unlikely to be affected too strongly by a fixed link. It is costs which trouble most of them just now. While most ports have shed labour and invested in modern equipment to stay abreast of the competition, they are concerned about those expenses over which they have no control.

For a big container ship, the British Ports Association pointed out, light dues can cost more than £20,000 a call, even though it may have only a few hundred containers for the UK. Such charges, which could total more than £1m a year for one line, "represent a real and dominant deterrent for the shipowner and have resulted in lost trade for some of Britain's larger ports."

For the ports, such matters are vital. Ports are a key element in the transport industry, which represents some 4.5 per cent of the UK's gross national product. Total turnover of the industry exceeds £50bn a year and it employs over 1m people, including railways, roads, airlines, airports, shipping, ports and other related activities.

Mr Keith Stuart, chairman of Associated British Ports, which owns 19 ports including Southampton, said in a recent speech that some countries used transport as a lever to help overall economic growth, "even if this means massive subsidies and the over-provision of infrastructure."

Subsidies

In a dig at ABP's competitors across the Channel, he added: "A prize example of this philosophy is the policy of many north European governments towards their ports, which are used, as at Rotterdam or Le Havre, to generate the growth of industry and to capture freight traffic for the whole of the Continent, at a cost of billions of guilders and francs in annual subsidies."

Neither the UK Government nor the industry is likely to persuade other countries to change their attitudes to ports. But UK container ports do not want to see the big ships calling on the Continent and transshipping cargoes in smaller vessels to the UK.

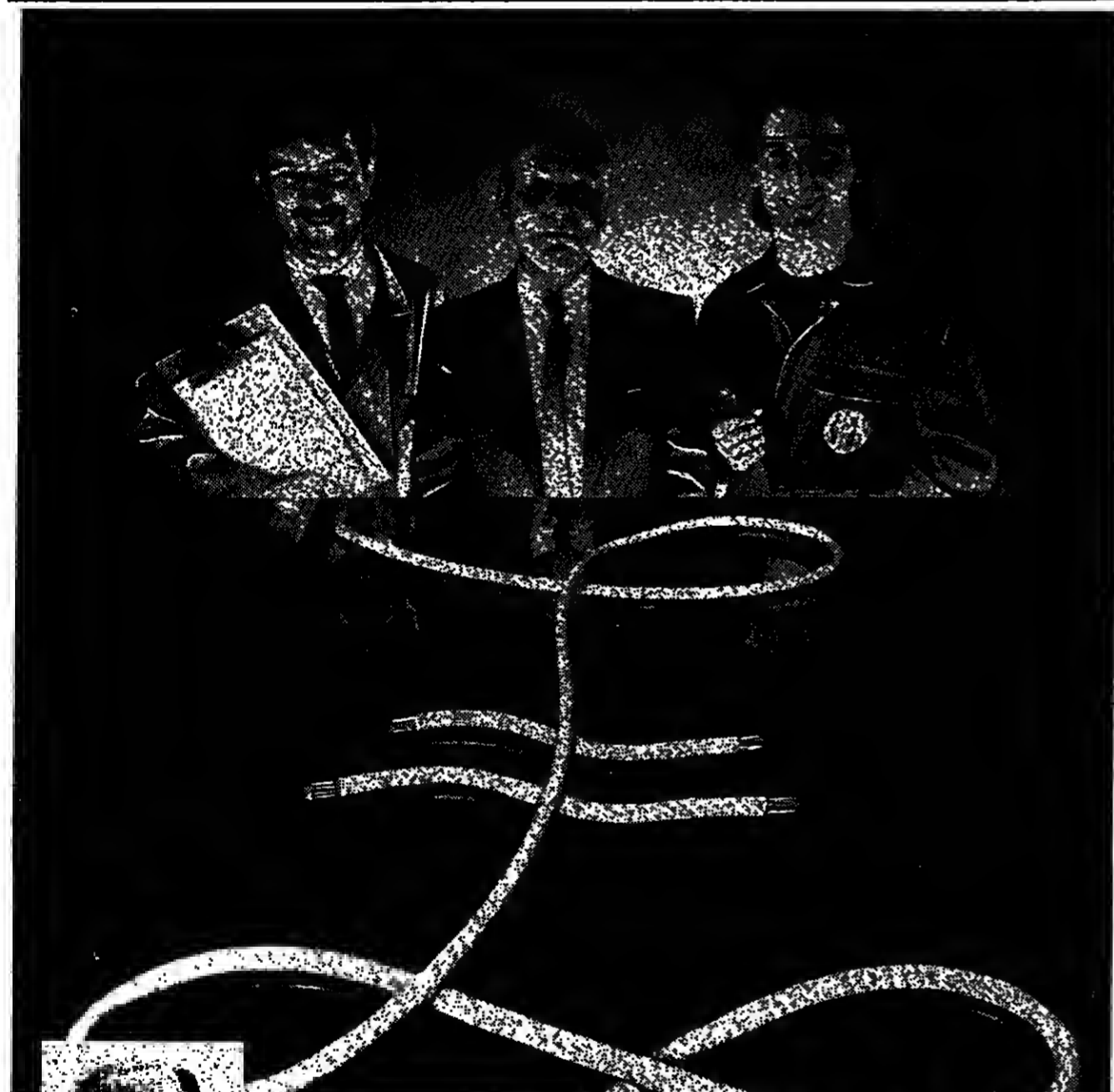
Half the trade handled by British ports by value is with the EEC and 45 per cent by weight, the other main trading areas being Scandinavia and the Baltic region, and North America. Last year a record 445m tonnes of freight were handled, 4 per cent up on 1983.

In tonnage terms, Sullom Voe in the Shetlands is the largest. But this is almost entirely in oil products, because of its position at the edge of the North Sea. Heading the list of ports in the traditional sense, handling a variety of cargoes and ships, is London.

With the rise in EEC trade and the advent of containerisation, the Port of London Authority has had to shift its centre of operations away from the city towards the coast. It is now based in Tilbury, Essex, 15 miles down the River Thames from London.

Whereas it employed more than 10,000 people in the mid-1970s, the numbers are now down to around 3,000. Altogether, the UK port industry employs some 12,000 people compared with 41,000 in 1973 and 82,500 in the peak year of 1961.

Despite the problems, there is plenty of investment in the pipeline. Sealink, the ports and ferry company, has ambitious plans for Harwich, slightly south of Felixstowe on the east coast, while Great Yarmouth to the north also wants to expand. The pressure to compete is becoming ever more intense.



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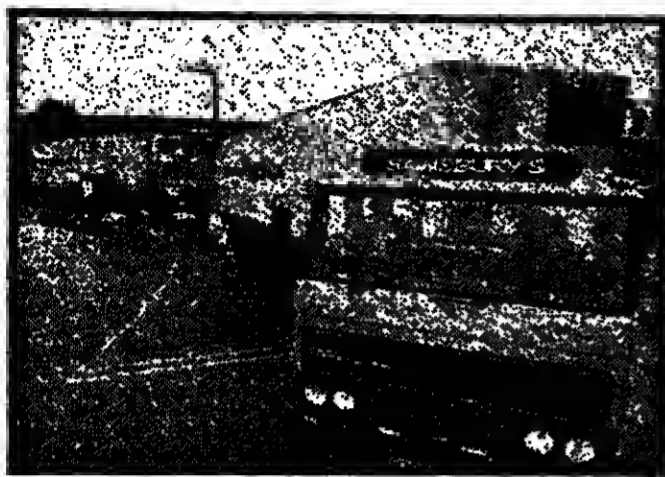
RENAULT TRUCK INDUSTRIES LIMITED DUNSTABLE BEDFORDSHIRE.

Investing in Britain 11

British Airports Authority: Passengers

(Year ended October 1985)		
	Moving annual total (000s)	Percentage change from October 1984
Heathrow	31,115.5	8.4
Gatwick	14,750.5	7.0
Stansted	521.5	1.7
South East airports	46,387.5	7.9
Glasgow	2,680.0	-1.7
Edinburgh	1,570.7	7.8
Prestwick	240.0	1.3
Aberdeen (fixed wing)	1,084.4	-0.5
Aberdeen (helicopters)	606.7	-3.7
Aberdeen total	1,691.1	-4.0
Scottish airports	5,182.7	-0.1
Total	52,570.2	6.9

Source: British Airports Authority



On average it costs £14 an hour to run a lorry, and up to £24 an hour for heavier vehicles. Greater investment in the UK road network would reduce delays, cut costs and boost efficiency, say the haulage organisations.

Air Transport

MICHAEL DONNE

ALTHOUGH A substantial series of changes is about to overtake the UK air transport industry, through the privatisation of both British Airways and the British Airports Authority, and a change in the structure, if not the direct ownership, of many local authority airports, the industry as a whole is inexorably growth-orientated.

Even during the worst part of the economic recession of the early 1980s, the effect on the industry generally was to flatten the upward movement of the traffic curve, not to depress it. Subsequently, despite many forecasts to the contrary, the growth has been resumed and for some individual months of the past summer it has reached proportions akin to those very high rates of expansion experienced just before the recession struck.

Statistics issued by the British Airports Authority, which owns seven major airports (including the biggest, Heathrow and Gatwick, as well as Stansted, Edinburgh, Glasgow, Prestwick and Aberdeen),

illustrate the point.

During October, after a hectic summer, the Authority reported overall growth, compared with the same month in 1984, of 4 per cent, to close on 4.64m passengers, with Heathrow gaining 2.7 per cent to just over 2.72m and Gatwick 8.3 per cent to over 1.5m.

But for the 12 months to the end of October, the overall growth was no less than 6.9 per cent, to an overall BAA total of close to 52.6m passengers, with Heathrow gaining 8.3 per cent to over 31m passengers, and Gatwick gaining 7 per cent to 14.75m passengers.

Many other industries would appreciate growth patterns of this nature. For the air transport industry, the overall forecast is that such growth is likely to continue through the rest of the 1980s and into the next decade at an average annual rate of between 4 and 6 per cent. If this is fulfilled, the current overall total volume of UK air traffic, of well over 60m passengers a year, could well be doubled by the mid-1990s, and further expanded by the year 2000.

The Department of Transport's forecasts for future UK air travel, issued in July, 1984 (before this past year's rapid growth) indicated that by 1996, the overall volume of traffic would lie somewhere between 93.7m (the low fore-

cast) and 133.6m passengers a year (the high forecast). For the end of the century, the low forecast was 105.8m, and the high forecast 172.8m.

It is to meet traffic growths somewhere between the two extremes that the Government, the British Airports Authority and the airlines are now effectively reorganising the industry.

The changes that will take place will be substantial. Over the next few weeks, plans will be crystallised for the projected privatisation of British Airways, the national flag carrier, some time in the mid-summer of 1986, with the sale generally expected to raise around £1bn for the Exchequer.

In addition, some time in 1986, although no precise date has been fixed, the Government intends to sell off the British Airports Authority, while at the same time restructuring it into a holding company with seven separate subsidiaries each running one of the Authority's seven airports.

Current estimates put the capital value on the privatisation of the Airports Authority at £500m, but this figure seems low in the light of the substantial sums, running into many hundreds of millions of pounds, the Authority is spending on the development of its airports — the new Terminal Four at Heathrow, the new Terminal

Two at Gatwick, and the development of Stansted, in Essex, into initially an airport capable of handling 7m to 8m passengers a year, but with capacity up to 15m a year, and the longer-term possibility of eventual growth to 50m, although the latter is by no means certain and may never even be attempted.

At the same time, the Government intends to restructure the ownership of many of the 22 local-authority-owned airports in the UK, including the biggest, such as Manchester, Birmingham, Luton, Leeds-Bradford and others, by obliging them to become public limited companies. Initially, the Government will permit the existing local authorities to own the shares in these companies.

Profitable

Eventually, however, it has made it clear that it would like to see the local authorities surrendering some part of their shares to private investors — companies in local industry, for example — so that a wider spread of regional airport ownership is achieved, thereby helping to remove those airports from the bureaucratic hand of local government.

Whether these measures will eventually result in a more dynamic, profitable UK air transport industry remains to be seen. Certainly, on present

ratings, British Airways is one of the most profitable airlines in the world, with £305.9m net in 1984-85, while the British Airports Authority has been consistently profitable throughout its history.

Many of the local authority airports, however, either lose money or are only marginally profitable and it is to improve this situation that the change of ownership and the potential injection of private capital, is planned.

The extent to which foreign investment capital will be permitted in either British Airways or the British Airports Authority, or in the local authority airports, remains to be seen.

It seems likely, however, that some limits will be placed on the participation of foreign capital and certainly that the Government, as with other state organisations privatised to date, will retain one "golden" or "blocking" share in both BA and the BAA, so as to ensure the long-term power of veto over any foreign take-over bids.

In any circumstances, British Airways and the British Airports Authority would be attractive investments — highly profitable organisations — in a long-term rapidly expanding market, and with both organisations possessing vigorous and competitive programmes for their future development.

For the rest of the UK air

transport industry, the outlook must be more difficult to assess, because of the nature of their operations.

There are close to 40 such airlines, after the main flag carriers, British Airways and British Caledonian Airways (which itself intends to seek a market flotation in 1986).

While some of these undertake domestic and international scheduled operations, the majority of them are non-scheduled operators, with a heavy bias in the inclusive tour holiday flying market, which is open to considerable competition and thereby sharp fluctuations in fortunes.

Some of these airlines are highly successful and profitable, others only marginally so. All of them expect to share in the expansion that most believe lies ahead. Some of the most successful, such as Britannia, Monarch, Air Europe, have already invested heavily in new jet equipment, which is enabling them to hold their own in an increasingly competitive marketplace. Others have been finding the going tougher as competition has become fiercer and are likely to find it ever more so in the years immediately ahead.

It is the latter carriers who may find it difficult to invest in the jet equipment they will need in order to hold their own in the competitive battles that lie ahead and who could well be targets for foreign investors.

Tougher times for hauliers

Road Transport

PHILLIP HASTINGS

INCREASING pressures from a wide variety of sources are making life ever more complicated for the British road transport industry.

Lopsided are the days when virtually the only qualification needed by a haulier was the ability to drive and maintain one or more trucks. Now, any haulier looking to run a successful business needs, in addition to be familiar with a range of different domestic and EEC laws, finance, insurance, economics, industrial relations and security.

The sort of competitive pressures now being faced by road operators were highlighted in a survey carried out by the Freight Transport Association, which represents the transport interests of some 14,000 companies throughout trade and industry, companies which themselves often operate large fleets of commercial vehicles on an own account basis.

The survey set out to study the changes in road haulage rates over an 11-year period between 1974 and 1984, using as an example the case of a 20-tonne consignment moved from London to Birmingham.

The actual figures, adjusted for inflation, showed that the rate per tonne within that overall consignment in fact dropped substantially during the period under study, while costs were rising.

In 1974 the FTA survey showed a rate of £3.5 per tonne, in 1979 a rate of £8.3 and in 1984 £8.8 — representing a fall in real terms over the 11 years of 27 per cent.

Using Department of Transport figures, the FTA also went on to spotlight a number of other trends in the road transport sector, all of which highlighted the increasing economic pressures on those moving freight by road.

For example, said the FTA, there had been a large increase in the volume of consignments transported by road, from 89.8bn tonne/kilometres in 1974 to 106.9bn tonne/kilometres in 1984. During the same period, inflation-adjusted figures for expenditure on road freight showed a marked drop, from £25.9bn to £20.1bn.

Reduction

Using those figures, the FTA calculated that expenditure per tonne per kilometre, again allowing for inflation, dropped from 28p in 1974 to 19p in 1984.

Those figures show that over the period studied, there was a remarkable reduction in unit costs for road transport. At the same time, they give the lie to accusations that road haulage is inefficient," said the FTA's director of planning, Richard Turner.

The increase in maximum vehicle weights from 32.5 tonnes to 38 tonnes in 1983 has also been an important factor in improving efficiency. By the end of 1984, nearly 20,000 38-tonners had been registered, about 80 per cent of them on the public haulage side rather than with own account operators.

"In 1984, those 18 per cent of all goods moved by road within Britain so they really are being used very efficiently and have already proved how much they were needed. Those 20,000 vehicles did the work of 24,000 32.5 tonners, based on

the average work they were involved in," Mr Turner said. "Also in 1984, the fact that we had 20,000 38-tonners saved nearly £33m in road wear costs and industry some £165m in operating costs."

Currently, hauliers are pressing for the 38-tonne maximum lorry weight to be increased to 40 tonnes but there are many other areas of legislation which they claim need to be changed further to boost efficiency in the road transport sector.

Recently, for example, the EEC Council of Ministers agreed to amend the rules on lorry drivers' hours to lengthen the legal driving day from eight hours to nine, with an improved limit for continuous driving.

However, the FTA believes that the rules will still remain a "complex tangle" unless the British Government takes action to wipe out the remaining 1968 Transport Act rules which were superimposed in Community law.

Investment

Both the FTA and the Road Haulage Association which represents haulage companies also argue that there needs to be greater investment in Britain's road network to cut down on the delays which push up costs and reduce the efficiency of road transport operations.

The FTA claims that on average it costs £14 an hour to run a lorry, £24 an hour for the heavier vehicles. In national terms, a 20-minute delay on all freight traffic would cost the economy £2.25m, it claims.

Other factors worrying the road transport industry, hauliers and own account operators alike, include frequently changing fuel costs — fuel is reckoned to account for 24 per cent of hauliers' overall costs. The RHA protested that a recently-announced increase of 1.55p or 1.6p per litre in the price of scheduled derv followed seven increases and four decreases during the course of 1984.

Also worrying road transport operators are the increasing number of lorry bans being imposed. The doomed Greater London Council, for example, is due to introduce its ban on lorries over 16.5 tonnes gross weight at night and weekends on January 31.

One other increasingly important factor as far as the future shape of Britain's road transport industry is concerned involves the changing patterns of distribution operations, particularly where High Street deliveries are concerned.

The trend towards retailer-dictated distribution set-ups with their large-scale, supposedly super-efficient systems, combined with the ever more complex nature of road transport operations, is leading more and more industrial companies to opt out of owning their vehicles or using haulage operators. Some have changed over to contract hire arrangements, others are now going a stage further and pulling out of transport operations altogether, handing over their whole distribution operation to third party specialists.

Faced with the prospect of more and more general freight traffic being handled by large distribution organisations, many hauliers are increasingly looking either to diversify their operations, for example by acquiring warehousing so they can undertake more general distribution activities, or to more specialised sectors, for instance by providing express delivery/parcel services.

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St Michael

Investing in Britain 12

Support for innovation given priority

BUSINESSMEN THINKING of building a factory, starting a company, or expanding an existing facility in Britain will find no shortage of advice or guidance. Help is at hand from central government (largely through the Department of Trade and Industry), from local authorities (which are taking an increasingly active role in the regeneration of local economies), from regional development bodies like the Scottish Development Agency and the Welsh Development Agency, and from the private sector in the form of banks, merchant banks, and the growing numbers of venture capital funds.

Support for innovation is among the Government's specific priorities. There is, for example, a scheme which provides up to 25 per cent of eligible costs to encourage approved R and D. There is the Alvey Programme which covers collaborative research in advanced information technology between industry, academic institutions and other research organisations; and there is the European Strategic Programme for Research and Development in Information Technology (ESPRIT) which was adopted by the European Community to support R and D programmes in microelectronics, software technology, advanced information technology, office systems and computer integrated manufacture.

Business problems

The DTI, meanwhile, awards grants to help companies obtain advice on business problems and opportunities, and to provide information. Many of these services, such as those for design, manufacturing and quality assurance, are directed towards small and medium-sized businesses, but the support is available to all firms where advanced manufacturing technology, biotechnology and microelectronics applications are concerned.

Companies looking for a package of special incentives may well turn to one of the regional development agencies. The Welsh Development Agency, founded in 1976, was set up to put new life back into the Welsh economy and improve the business environment in Wales. With 20m sq ft of space, the Agency can provide a wide variety of

Sources of aid

TIM DICKSON

factory units; it offers equity and loan funds on commercial terms; and its Business Development Unit specialises in management and technical advice to firms with fewer than 50 employees.

The Scottish Development Agency supplies equity and loans and aims to bridge the finance gap or complement private sector sources. Its electronics division helps evaluate and set up new high technology businesses and the SDA keeps an investment register to enable businesses with problems to find stronger partners.

The Northern Ireland Industrial Development Board (IDB) helps clients raise finance and other forms of public sector assistance; finds new products for Northern Ireland-based companies; and introduces overseas companies to local firms with a view to engaging in a joint venture or licensing agreement.

As well as the help available from the national government and regional bodies, businessmen should bear in mind the incentives offered by local authorities. The spectrum of schemes is constantly changing being influenced by budget constraints—and most of them are targeted on the small locally owned business—but the powers of councils are not insignificant.

They can, for example, make loans of up to 90 per cent on the secured value of buildings, dispose of land below its market value, and invest local authority pension funds in local businesses. There is also the general power of Section 137 of the 1972 Local Government Act under which grants and loans can be awarded to a total value equivalent to a 2p rate in the pound.

Several local authorities—notably the Greater London Council and the West Midlands—have established substantial enterprise boards under Section 137. Typically they offer a mix of loan and equity to medium sized local businesses and are aimed at breathing new life into established businesses and

stimulating employment.

Enterprise boards are distinct from enterprise agencies, which are often supported by local authorities but which are typically local partnerships between councils, companies in the private or public sector and the professions in a given area.

Initially, enterprise agencies concentrated on encouraging the growth of successful small businesses through basic management training and advice—they do not lend or invest money—but some have recently expanded into the provision and management of small business workshops, agency work for the Government's Youth Training Scheme, further involvement in training and education, and closer liaison with the Government's Information Technology Centres.

Private sector

There are between 150 and 200 enterprise agencies—their effectiveness varies depending on the quality of the director but the chances are that any one agency will be well informed about the best sources of finance and property in their locality.

In the private sector, bank lending to small and medium sized businesses is dominated by the four major high street lenders, with the UK merchant banks and the increasingly competitive and aggressive US banks offering more sophisticated and individually tailored lending packages.

One of the most significant developments in Britain in the last five years is the expanding role of venture capital. Whereas in 1979 the long-term finance market for small companies was dominated by ICFI (now part of the Investors in Industry Group) with perhaps 15-20 others, there are probably at least 150 organisations now which call themselves venture or development capital funds.

Several have international connections (mainly American), including Ailingworth, Advent, Alta Berkeley, Alan Patricot Associates (APA), Barings and Hambrecht and Gust, Citicorp Venture Capital, Newmarket, Thomson Clive and Venture Founders. Few of these specialise by sec-



ADVICE

The range of advice and assistance available has expanded rapidly, with national, regional and local government, the professions and self-help groups all keen to assist potential investors.

tor or "round" of finance, taking in everything from the pure start-up to the mature management buy-out.

One scheme that has had a major impact is the Business Expansion Scheme, under which individuals in the UK can gain income tax relief at their highest rate for qualifying businesses up to £40,000 per annum until April 1987. Companies are eligible if they are "unquoted", if they carry on a qualifying trade (which includes most manufacturing but excludes financial services), and if they are not controlled by another company.

German Direct Investment in UK

Total investment until December 31 1984 (net transfers since 1/1/1952) DM (m)

1965	142
1970	594
1971	714
1972	734
1973	862
1974	1,093
1975	1,709
1976	1,965
1977	2,115
1978	2,358
1979	2,443
1980	2,614
1981	2,909
1982	3,960
1983	5,018
1984	6,109

Source: Federal Ministry of Economics, Bonn.

Keeping Europe's door ajar

The Japanese connection

ROBIN REEVES

A SENIOR Japanese executive working in Wales was recently asked what was required to encourage more Japanese manufacturing investment in the local economy. "An increase in EEC trade restrictions," he replied mischievously.

For all the lip service that is paid regularly in the recessionary climate of the 1980s to the importance of maintaining free trade between OECD economies, the fact remains that a high proportion of Japanese inward investment into the UK and Europe has been initiated by EEC trade restrictions, real, threatened or feared, rather than the growing inefficiency or impracticability of supplying expanding UK and EEC markets from Japan.

There are a number of notable recent examples. No inward investment project was fought for more keenly by UK local authorities than the Nissan vehicle assembly plant, now under construction in the north east of England. The venture promised eventually to create as many as 5,000 jobs, making it the largest job-generating manufacturing project to have appeared on the UK inward investment scene in recent times.

But it is debatable whether Nissan would have contemplated making the investment in the first place but for the "voluntary" ceilings on Japanese car imports into the UK and other EEC markets and the restraint this has placed upon the company's growth.

Similarly, Komatsu of Japan, now the world's second largest construction machine maker, announced last month (December) that it was investing £12.5m in the former Newcastle-upon-Tyne premises of its main rival, Caterpillar Tractor of the US, to produce hydraulic excavators and wheeled loaders. Caterpillar abandoned the factory last year creating 1,000 redundancies.

Komatsu acknowledged that its decision to manufacture in Europe had been influenced by the earlier imposition of anti-dumping duties upon its export of excavators to Europe. The company was at pains to add, to date, 10 are from Japan.



In manufacturing, the Japanese are setting management and performance standards which UK-based companies now seek to emulate.

emphasise that the UK content of its machines would rise from 60 per cent to 80 per cent within three years.

In another example, continental EEC machine tool producers lobbied hard last year (1985) to prevent Yamazaki, the Japanese machine tool producer, from building a £20m automatic plant at Worcester to produce lathes and machine centres. In this instance, the company sought to allay the fears of its continental competitors by suggesting that the new plant may export its finished products to Japan.

Generally speaking, the importance of trade restrictions as a factor encouraging inward investment is sometimes lost sight of in the hard sell, promotional battles between different parts of Britain and their emphasis upon the superiority of communications infrastructure, excellent labour relations, etc.

This observation is particularly true of Wales which, for many years now, has been seeking to attract as much inward investment as possible, not only from abroad but also from other parts of the UK. This has been in order to replace the declining job opportunities in its traditional industries, notably coal, steel and agriculture.

The net result is that Wales, these days, boasts over 200 overseas-owned companies of which just over half are from the US company was at pains to add, to date, 10 are from Japan.

This tie-up appeared an ideal solution to the problem of international economic and technological adjustment in a major industry. The benefit of Japan's more advanced television technology was to be applied to modernise a significant slice of British manufacturing capacity, in a way which would safeguard rather than undermine the jobs of the 2,000 workers then employed at Hirwaun.

In the event, the marriage was not a success (as has been the case with other UK-Japanese joint manufacturing ventures) and last year terms for a divorce were agreed; though not before there had been a series of redundancies, short-time working, a pay freeze and more than one strike.

Hitachi, having bought out GEC's share, has since proceeded to introduce the full paraphernalia of Japanese management style and practice, including the removal of all demarcation, and the granting of single union negotiating rights—in this instance to the electricians' union, the EEPFU.

The union, in turn, accepted the introduction of pendulum arbitration—the controversial so-called no-strike agreement whereby in the event of a dispute an arbitrator will recommend either management or union position without seeking a compromise—and, more unusually, a further 400-plus redundancies.

However, Hitachi's Hirwaun plant now appears to have turned the corner. Recruitment has recommenced—it is in the process of taking on 200 new staff—and a diversification into the production of video recorders has been introduced.

Whatever the motivation or inspiration, Japanese manufacturing investment has been widely welcomed in Wales. It has offered a source of secure and growing employment in a jobs-hungry economy. It has also helped to establish new standards of manufacturing efficiency and wise investment.

Since they first put down roots, most Japanese companies in Wales have undertaken regular investment to increase and upgrade the local content of their products, and in other instances to expand their product range, increasing the number of secure jobs available. In short, they have set management and performance standards which many other Welsh-based companies now seek to emulate.



The fastest-moving bank in Britain.

Investing in Britain 13

Advertising

TOP TEN

Name	Billings £m
1 Saatchi & Saatchi	162.00
2 J. Walter Thompson	142.60
3 Ogilvy and Mather	110.50
4 D'Arcy MacManus	107.00
5 Dorland Advertising	102.00
6 Leo Burnett	82.40
7 Foote Cone & Belding	81.96
8 McCann-Erickson	78.70
9 Bosc Maslin Pollitt	76.90
10 Young and Rubicam	76.72

Source: Campaign (Jan 1985).



Maurice (left) and Charles Saatchi: dynamic management has put their agency at the top of the league.

PR Consultancies

TOP TEN

Name	Fee Income £m
1 Good Relations group	5.1
2 Charles Barker Group	4.6
3 Shandwick Group	2.9
4 Burson-Marsteller	2.8
5 Dewe Rogerson	2.1
6 Welbeck	1.9
7 Hill & Knowlton	1.8
8 Daniel J. Edelman	1.6
9 Kingsway	1.5
10 Carl Byoir	1.4

Source: PR Week (Sept 1985).

A retail lesson in meeting aspirations

BRITAIN HAS arguably been slower than other countries in realising the vital role that marketing plays in achieving economic success—but it is rapidly catching up and embracing marketing with a vengeance. Marketers within UK companies are gaining the status that used to belong exclusively to accountants, engineers, or lawyers. As more executives rise to the top from the marketing function, so the value of that discipline is making itself felt. This new pre-eminence for marketing is nowhere more obvious than within the retail sector which has proved to be one of the most dynamic areas of UK business in the 1980s.

Prime among these changing tastes has been the increased consumer awareness of shopping as a statement of their lifestyle. The key group with money to spend consists of young couples with children and owning their own home. These 25 to 45 year-olds come from the C1 and C2 social-economic classes—broadly used to be called the upper working and lower middle classes. What successful UK retailers have tapped is the aspirations of these consumers—to achieve a more attractive way of life through buying from certain stores.

there are signs that they are at last beginning to embrace new technology in a big way. The cost of retail computer technology has fallen by some 30 per cent in the past three years and this is fuelling what we predict as an explosive growth in electronic point of sale for the rest of the decade," claims Mr Richard Snook, ICL's manager in charge of its retail division. Laser-scanning checkouts are expected to become the norm in most large supermarkets by 1990 while by that time there are expected to be several experiments in operation for electronic funds transfer at the point of sale—automatic debiting of customers' bank accounts when they pay at the checkout.

Marketing

DAVID CHURCHILL

Many of these retailers have used design to get their message across. About 75 per cent of British retailers questioned in a recent survey have adopted a new store design format within the last two years. The life expectancy of such new looks, however, is as low as three years for fashion shops—although slightly longer for other types of retailer. Aspirational shopping is not the only key change in British retailing in the 1980s. The more affluent consumers are increasingly seeking to avoid crowded high streets with poor car parking facilities. Instead, they prefer to shop at large out-of-town superstores or hypermarkets where parking is easier.

But the traditional high street is likely to stage something of a comeback as the place for specialist shopping, such as fashion boutiques or up-market food shopping. Small neighbourhood convenience stores based on US-style operations are also becoming increasingly popular. They will particularly benefit from seven-days-a-week trading following the expected relaxation of shop opening hours in the UK later this year. British retailers have until now been relatively slow to grasp the full benefits of new computer and electronic technology for use in stock control and at the point of sale. Yet

Teleshopping at home via videodata systems or home computers will also have become established by the early 1990s, although this is likely to appeal only to a minority of consumers.

Other marketing trends include the cross-selling of financial and other services, previously outside the scope of what people would buy from a shop.

Apart from these retail and consumer marketing trends, what is the state of the marketing infrastructure in the UK? Britain as a conference and exhibition venue is becoming increasingly popular—not only because of its traditional culture and attractions as a country but also because of the improved facilities.

Spending at conferences in Britain is now running at about £20 per head per day, against £26 in 1984, and £20 in 1982.

The National Exhibition Centre, just outside Birmingham, has become a popular international venue for conferences and exhibitions. Last year it accounted for about 37 per cent of spending on exhibitions by British companies and considerably more if overseas ones are taken into account.

Apart from the NEC, there are established exhibition venues such as Earls Court and Olympia, as well as newer ones such as Harrogate and the Barbican.

Some 680 large-scale conferences are held in the UK each year, with about 150 attracting 1,000 delegates or more.

Emphasis on strong public relations

Advertising

DAVID CHURCHILL

THE ADVERTISING and public relations business in Britain have stayed remarkably buoyant during the past few years in spite of the tougher economic conditions which, in the past, would have led to companies cutting back on their promotional spending. During the 1980s British companies have come to realise that when their markets are under pressure, it is even more important to maintain market share through advertising and PR activity. It costs more—and is less certain—to rebuild a brand's strength after it has lost market position.

Yot the tight financial controls employed in many companies has meant that PR has actually fared better than advertising in most years. Companies with advertising budgets running into the millions have found that even a small increase in PR expenditure—where most account fees are far less than £100,000—can make a significant difference in achieving marketing targets.

Not surprisingly, Britain's PR industry is enjoying its best ever year with the 110 members of the main trade association—the Public Relations Consultants Association—earning

over £40m in direct fees. British companies are estimated to spend up to £500m in total on PR in all its forms—including in-house departments and direct print and promotional expenditure.

The growth of PR activity in the UK has even outstripped its popularity in the US. In 1979 in America, some 78 per cent of the top 500 companies took PR consultancy advice, compared with only 21 per cent of the top 500 UK companies. By 1982, the same comparison showed 82 per cent consultancy use in the US and 36 per cent in the UK.

By 1984, however, the UK was catching up fast. Consultancy use by top companies in America rose to 84 per cent while in Britain the figure rose to 69 per cent. In fact, 45 out of the 50 largest companies in Britain now employ a specialist PR consultancy.

Why is PR—especially consultancy PR—doing so well? One reason is that consultancies offer a more extensive—or additional—service than traditional in-house departments and thus companies are more willing to embrace PR.

Generally, however, the boom in PR is attributed to the growing awareness of companies of its value. "As the commercial world becomes more complex, so does the need to get the message across," argues Mr Tony Good, chairman of Good Rela-

tions, the only PR consultancy at present with a full quote on the London Stock Exchange.

Adole Biss of Biss, Lancaster also suggests that PR is a more effective way of reaching target groups such as consumers, businessmen, journalists, environmentalists, and so on. "There are a growing number of these groups who are articulate and influential and clients want to reach them," she says.

The growth of PR activity over the past year or so also owes much to first-time users of PR, especially in the areas of financial, corporate, and high-technology public relations. Marks & Spencer, for example, recently appointed Valin Pollen to advise on financial PR—the first time that Marks had used an outside consultancy.

Kevin Travers-Hesly, the immediate past president of the Institute of Public Relations as well as working in consultancy PR, points out that "the state of merger activity has shown up the lack of corporate awareness by a number of major companies."

The growth of PR is, not surprisingly, attracting the attention of the major advertising agencies who not only see PR as a threat to traditional advertising revenues but also as a means of capitalising on a growth sector.

The Wight Collins Rutherford Scott agency, for example,

acquired Biss Lancaster earlier this year, in a deal which could be worth up to £8.5m. Saatchi and Saatchi recently made its much heralded move into PR with the takeover of Kingsway PR.

The Foote, Cone, and Belding advertising agency already owns two PR companies—Carl Byoir and Welbeck—while some other PR consultancies, such as Charles Barker, also have extensive advertising interests from other parts of their group.

Two major consultancies—Hill & Knowlton and Burson-Marsteller—are part of US communications groups.

The advertising agencies themselves had a good year in 1984 which continued throughout the past 12 months. Total advertising expenditure in 1984 rose to just over £4bn for the first time, a 13 per cent increase on 1983.

Advertising also captured a record 1.48 per cent of the gross national product.

In part this buoyancy was fuelled by the development of more television time through Channel 4 and breakfast television and the advent of new-

comers in advertising, notably professions such as accountants, architects, and opticians.

Television, however, has had something of a difficult year because of weak marketing and falling audiences. But it remains the second largest advertising medium, accounting for some £1.245bn worth of advertising expenditure.

Press was the largest overall sector and accounted for some £2.558bn of the total advertising spent in 1984. The regional press remains bullish, perhaps encouraged by some disenchantment by advertisers with the claims of free-sheet newspapers.

One growth area is direct marketing, once the Cinderella of the advertising world but now rapidly growing. Direct marketing, of which the bulk is direct mail, has gained from the trend towards more specific targeting of communications—either to the consumer or to other businesses.

The finance sector in particular has woken up to the potential of direct marketing. Insurance companies, credit cards, and unit trust funds are becoming more sophisticated in mailing to prospective buyers of financial services.

The Post Office has been the major beneficiary of the growth in direct marketing, earning more than £200m in extra postal revenue according to trade estimates. The number of direct mail shots has more than doubled over the past decade, with a big switch towards consumer mailings and away from business-to-business mailshots.

Consumer concern with so-called "junk" mail has prompted the industry to try to clean up its image with various schemes—moves that have helped create a firmer foundation for the sector.

Washington

How do you choose the best location with so many others in the running?

In Nike's case they used simple logic. As the world's leading running shoe manufacturer, parented in the USA, they knew exactly what a Nike-UK operation needed: fast and efficient distribution; a highly motivated workforce; keen local suppliers; and an environment which would appeal to relocated management personnel.

Nike looked at 6 sites, most of them near London and they chose Washington, Tyne & Wear.

So how much of what they wanted did Washington give them?

For a start, they enjoy better distribution with lower overheads than they'd get in central England. The local workforce is enthusiastic. First-class suppliers are on their doorstep. Relocated personnel have all the advantages of lower cost housing and the extensive amenities of the North East.

And that's not all.

Within one year of settling into Washington, Nike turnover had doubled. So did the workforce. After 3 years, Nike sales were up 20-fold. The company is well embarked on a programme of expansion that will probably bring them to within panting distance of Adidas in the general sports-gear market.

And they did it all from Washington, with the help of the best financial package available to any development area in Britain.

In the words of Managing Director, Brendan Foster: "The best thing Nike ever did was to set up their company in England; the second best thing they did was to set it up in Washington."

If you'd like to learn what Nike learned, contact Norman Batchelor, Washington Development Corporation, Usworth Hall, Washington, Tyne & Wear. Telephone: (091) 416 3591. Telex: 537210 DC WASH G. It will help your business to walk. Running comes later.

Washington. Profit from our experience

Investing in Britain 14

Pendulum swings in favour of the tenant

Property
MICHAEL CASSELL

ONCE THE decision in principle to establish a business in Britain has been taken, the practicalities of finding property are not far behind. Where to locate, what type of accommodation to occupy, the tenure options available, all require detailed consideration and speedy decisions.

The first conclusion likely to be arrived at by many incoming companies is that the commercial landlord in the UK is used to having everything his own way.

Tenants are generally expected to sign long leases — 25 years is the norm — and any rental agreement is unlikely to include a break clause, meaning that a decision to leave before expiry of the lease will entail finding someone to take it over. They will also be responsible for fully insuring and maintaining their property.

Such liabilities are long-enshrined in the British commercial property market's structure but can come as a rude shock to occupiers used to operating in regions of the world where the landlord has not been quite so all-powerful.

From now on at least, newcomers may find that the pendulum has begun to swing more in their favour. The recent, generally weak state of the UK commercial property sector, in which overcapacity has stifled rental growth, means that the tenant has enjoyed one of those rare periods when he can at least start to call the tune.

As a result, shorter leases — down to five years — are becoming increasingly implemented and break clauses too are beginning to work their way into letting agreements. It would be an over-exaggeration to suggest that they have become normal and the institutional landlords, who represent a major force among landlords, remain reluctant to abandon their old habits. Even so, the picture is changing.

An increasingly significant trend is the development of office buildings designed for

freehold, rather than leasehold tenure. Years of landlord dominance has encouraged the shift towards outright ownership, for precisely the same reasons that have seen owner occupation in the housing market rise in recent years from around 50 per cent to 63 per cent.

Freehold ownership provides a company with an enhanced ability to decide its own future and, most importantly, gives it an asset base which can prove very useful when it wants to borrow money. The occupier, it is true, will be faced with all the overheads and management responsibilities which go with ownership but they would still have to be confronted if the property was held on a long lease.

Most freehold schemes have been confined to the smaller end of the office market, though this type of property could well appeal to the company involved in a start-up operation. The major snag is that few of the newly-developed schemes are likely to be centrally located, given the traditional landlords' reluctance to give up freeholds to occupiers in prime locations.

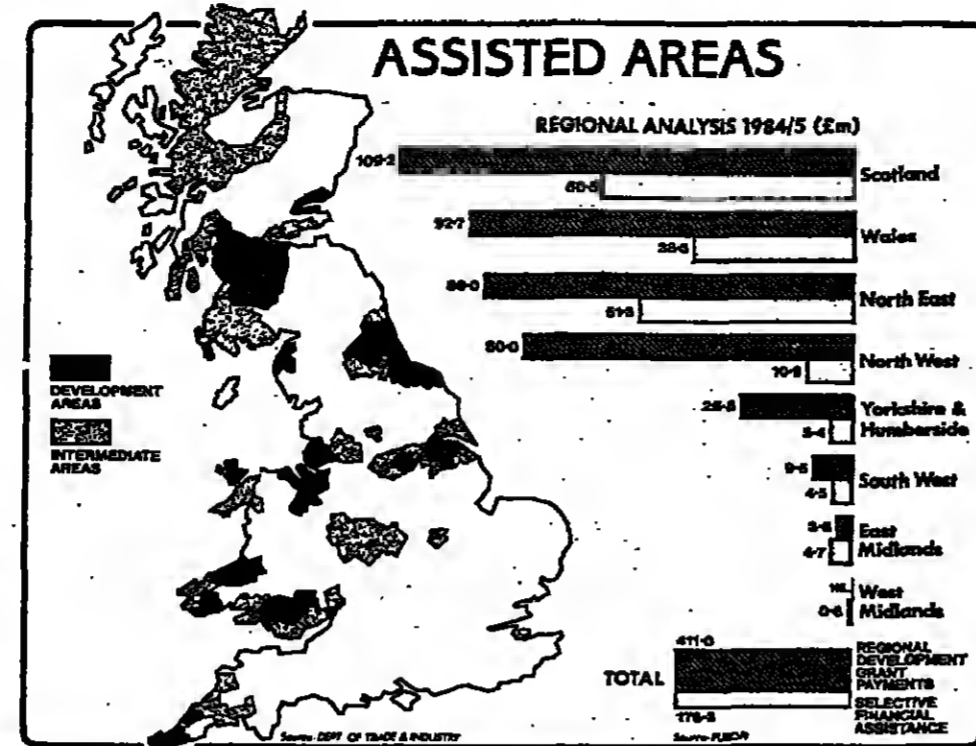
Accommodation

Irrespective of the choice of tenure, the latest generation of development in the UK is providing a range of modern business accommodation which, until recently, the UK development industry had not considered necessary.

The all-important influence of development trends in the United States has begun to have an unmistakable impact on the pattern of commercial development in the UK, with flexible, so-called "high-tech" space mushrooming in attractive campus developments around the country.

In the development industry's determination to provide the latest and highest standards of accommodation, building classifications have become somewhat confused but the overall intention has been to provide a flexible mix of multiple accommodation designed to cope with an expanding company's space requirements and product evolution.

The natural magnet for development has, inevitably,



The trend in Britain is away from traditional factories and warehouses, and towards space that can be used for production, offices or research, in line with modern industry's needs. This scheme in Swindon was speculatively developed by Royal London Mutual Insurance.

been the southern half of the country, around the Greater London area, out along the Thames Valley and, to a more limited extent, north east of the capital towards Cambridge.

The geographical advantages of the region, close to Channel ports and airlinks (with the growing prospect of a fixed link to Europe) provide the natural incentives for property development but the pressure on available development space in the most popular areas has inevitably made accommodation increasingly expensive. So while rents in London can exceed £35 a square foot, good quality accommodation in some major, provincial cities can be had for under a tenth of that figure.

Companies locating in the south east must be prepared to pay a large premium for doing so and many, depending on the nature of their business, might do worse than consider locating further afield, possibly to one of the major towns which have been pursuing aggressive marketing campaigns designed to extol their own particular virtues.

There can be significant financial incentives available for space takers prepared to succumb to the blandishments of those towns vying for new businesses. Even a potted description of the incentives available from the UK Government, and from EEC sources runs to 150 pages but detailed advice is available from a variety of property-oriented organisations, such as English Estates, the Development Commission or the Council for Small Industries in Rural Areas.

A major, new initiative on the part of the Commission for

New Towns, which is charged with the task of selling off the property assets of 12 mature New Towns, could help the newcomer decide on the most appropriate location.

In November, the Commission opened its own shop window in London's Piccadilly. According to Sir Neil Shields, chairman of the Commission:

"Any company looking for the ideal site for expansion, relocation or even its first premises, can come to our offices at Metro House and find all the answers in one place. It is really a 'one-stop' shop because we have a unique data bank and specialist staff who will give unbiased advice and assistance."

Callers can hardly expect to be recommended to locate somewhere beyond the 12 towns on its books but, within the confines of its brief, the Commission's information centre can be expected to provide good advice on the complete range of opportunities and properties available. The Commission's towns extend from Harlow and Hatfield, as far as Skelmersdale and Central Lancashire.

The Commission refutes any suggestion that spurred on by a government which has handed out huge discounts to buyers of public sector housing, it is selling off assets at anything other than full market values. But with a land and property portfolio worth over £1bn and ready for sale, potential buyers can rarely have had such an impressive catalogue to choose from.

Practices come in all sizes, but the overseas investor should have no difficulty in obtaining most, if not all, his professional advice in property matters "under one roof". In this respect Britain differs from many other countries.

A typical surveyor can look after a foreign businessman from the time he decides to consider a commercial or industrial development in this country to the day he occupies the premises—and beyond. His first advice will probably relate to

One-stop shopping for necessary advice

MANY FOREIGN companies seeking to set up business in the UK will already have some knowledge of the services they may expect to find here, especially from chartered surveyors, says David Yorke, vice-president of the Royal Institution of Chartered Surveyors (RICS) and himself a practitioner. About one in 10 of the holders of the chartered surveyor qualification actually practice outside the UK.

Their activities span the world and cover 145 countries but says Mr Yorke, they will be most readily recognised by businesses coming from France, Belgium, the Netherlands, Germany, North America and the Far East, where many UK practices have active branch offices.

Although the RICS is divided into seven divisions, in an attempt to make their range of skills more easily understood to overseas clients the work is set out under three main headings: surveying and mapping; construction economics; and land administration. The RICS's current directory of international practices lists no fewer than 25 separate activities under these groupings.

For the overseas investor in this country, Mr Yorke says, chartered surveyors provide the security of a profession in which qualification requires an exacting educational programme of university degree standard, followed by two years of approved practical experience leading to a test of professional competence. The institution itself sets and monitors high standards of practice and ethics, including a programme of continuing professional development which British architects have yet to adopt. From the first of this month it became compulsory for members to carry adequate professional indemnity insurance.

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the most suitable site for the client's needs. This will take into account fundamental considerations such as location—both from the point of view of accessibility to ports, airports and motorway and for general distribution needs; other communications potential; and availability not only of labour in general, but of the kind of labour required, which could be highly specialised is much sought after.

Another factor in the choice of location unique to Britain is the network of national and local incentives in the form of direct grants from local or other authorities or in the form of planning "holidays" and rates reductions as in the case of enterprise zones. Rates—which are property taxes—do not exist in some countries and take different forms in others. Surveyors can explain the dif-

Should renting turn out the best option, a surveyor will negotiate his client's lease to his best advantage. He may then offer to manage the property on his behalf as well as to let any surplus space which may become available.

Many foreign investors wish to build their own properties. Surveyors can help here, too, in their growing involvement with project management. The cost of building work can be estimated in advance—British quantity surveyors have been doing this for years, but building surveyors and others are now becoming increasingly interested in this speciality and finance can be arranged through one of many financial services techniques which exist involving mortgaging and sale and leaseback—all depending on the client's financial status and preferences.

Should the client seek to build more than his immediate requirements, his surveyors will help him let the surplus space, advising him on the complexities of British landlord and tenant legislation. He will also offer to take on the management and long-term maintenance of the property to ensure it retains its investment value over many years. This includes important elements such as energy efficiency, which are best dealt with at the design and construction stage, and suitability for changing needs and uses.

Surveying Services

MIRA BAR HILLEL

ferences and how the levels of rates in different areas can affect long-term location planning. The system of grants and incentives can also change and up-to-date professional advice can save thousands of pounds.

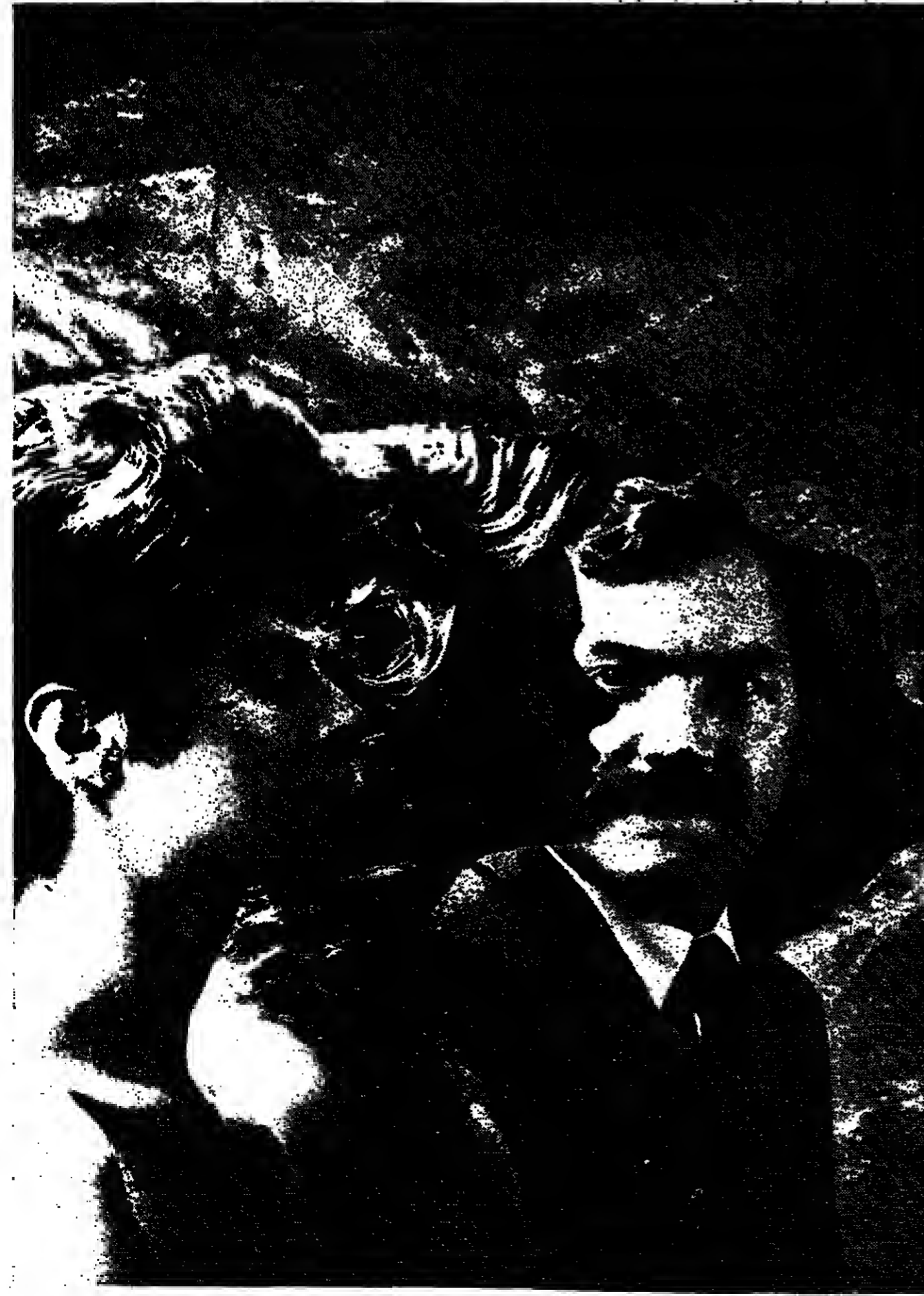
The next stage is the evaluation and negotiation leading up to site acquisition—a process often an arduous one applying for and obtaining planning consent. The British planning system is unique and most overseas investors would, without detailed professional guidance and preparation, find it almost impossible to come to terms with the warning of possible long delays could help the investor avoid serious planning pitfalls.

The surveyor could also get involved in negotiating finance for a project in house consuming and frustrating. Even new building—or indeed he may advise the client that rented or leased accommodation might be more suitable. In which case building surveying skills may well be required, as once a property is located, it appears suitable in principle, its structural condition and general state of repair will have to be assessed carefully, as well as its legal and planning status.

Selected prime industrial rents and rates

	£ per sq ft 1985-86	Annual compound rate 1981-85
London		
Craydon	4.28	3.0
Heathrow	5.85	5.8
Park Royal	5.90	3.3
Tower Hamlets	4.60	4.5
Birmingham	3.30	2.5
Friston	3.50	5.2
Cardiff	2.50	2.0
Edinburgh	3.10	4.7
Glasgow	3.85	3.7
Leeds	3.00	2.8
Manchester	3.35	5.4
Reading	5.70	6.4
Southampton	2.80	5.1

Source: Dabraham Tawson and Chiswick



ELECTRICITY TALKS THE LANGUAGE OF INDUSTRY.

“Here at Revlon, replacing our central oil-fired boiler with an electrode boiler has saved us £49,000 a year in fuel and maintenance costs. On a capital investment of £10,000 we've achieved a pay-back of under three months. Furthermore, response is faster so our production flexibility is improved.”

Electricity talks our language very fluently indeed.”

Malcolm Bond, General Manager, Revlon Manufacturing UK Limited, Maesteg, Mid Glamorgan.

Across the country, in companies both large and small, electricity is helping industry reduce costs and increase productivity.

An electric furnace has enabled the Rexel Cumberland Pencil Company Limited to more than double their weekly output of graphite pencil cores and has cut process energy costs by over 50%. Together with labour and material savings, Rexel's investment has been offset in under 10 months.

Electric infra-red drying of the paint finish on microwave ovens at Thom EMI has improved production quality, halved curing time and reduced man hours. Production has trebled and the equipment has paid for itself in less than a year.

The list of examples is growing daily. All proving that electricity is likely to talk your language, too.

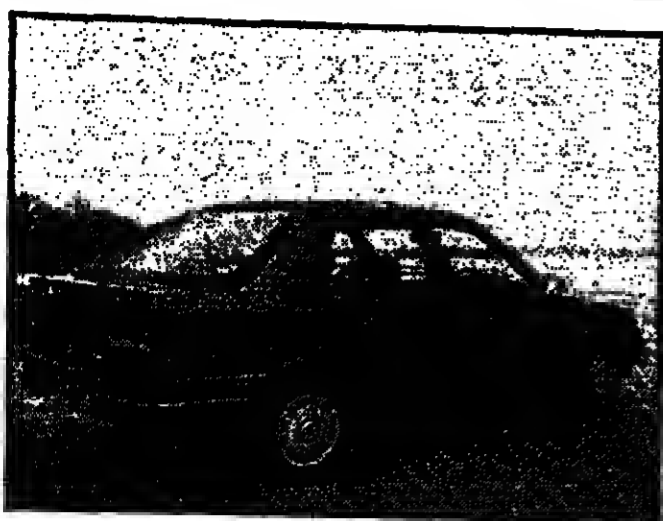
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Production of the Peugeot 309 hatchback (above) is being stepped up at the Ryton, Coventry, car factory. The UK management is meanwhile seeking support from its French parent group to assemble a planned new middle-range car, code-named the D-60, which would compete against the Montego and Sierra at the heart of the fleet sector

FRENCH INVESTMENT IN THE MIDLANDS

How Peugeot found the right track

BY ARTHUR SMITH

"THE DECISION by Peugeot, of France, to invest £30m in the UK was taken because the performance of our people justified it." That is the simple explanation given by Mr Geoffrey Whalen, managing director of Peugeot-Talbot UK, as he surveys the new assembly facilities at the Ryton factory, Coventry, where output of the 309 hatchback is being stepped up ready for launch next month.

He says: "Four years ago our quality and productivity were indifferent, but by working as a team, by recreating in our workshops a feeling of responsibility for the product and for the customer's needs, we have revolutionised our performance."

Indeed, the changes at the Coventry-based company have been dramatic. New work practices have been introduced, productivity has soared and the old image of the city as the home of "the mindless militancy of the car industry" cast aside.

The cynical might comment that workers could hardly be expected to be anything other than docile, given the memorabilia of jobs in recent years. A decade ago Chrysler, the US company that took over the old Rootes group, employed some 30,000 nationwide and well over 4,000 at Ryton alone.

Peugeot, which acquired the UK business from Chrysler for a nominal one US dollar in 1978, closed the Linwood, Scotland, factory and now employs little more than 5,000, concentrated principally at the Ryton assembly plant and the Stoke engine factory, Coventry.

Mr Whalen dismisses such views, pointing to the constructive efforts to get good labour relations and quality. He draws on experience as former personnel director for Leyland cars when it had a workforce of 120,000.

"Capital investment is vital, but what really harmed the British car industry in the 1960s and 70s was its people problem. If you look at our Ryton plant now and talk to the workforce you will see a new enthusiasm."

Volunteer

He goes on: "When shop-floor workers volunteer to spend their weekends, without extra pay, going out and helping to sell their products to the public it shows how proud they are of their workmanship. This is what is happening at Ryton and it is a mark of how much progress has been made."

Peugeot has adopted an assertive style of management, communicating directly with the workforce through its own supervisory structure

rather than through the trade unions.

The tracks at Ryton are stepped for half an hour at least once a month so that the management can give detailed information about production requirements, quality and market performance.

Management is required to give a lead in explaining the reasons and the actions necessary to raise productivity and quality. Newspapers and video presentations supplement the regular briefing sessions.

Mr Whalen argues: "I believe we are proving that British industry can be competitive without having to adopt Japanese habits which are alien to our culture and tradition. The real need is to communicate with employees, to involve them, to give them responsibility and make them feel part of a team seeking a common goal."

Mr Whalen insists it was the quality and productivity delivered by the UK workforce that led Peugeot to commit £30m to modernising British facilities and introducing the new 309 range of cars which will compete in the Escort, Astra, market sectors where fleet sales are important.

The British Government made a contribution with £1m of assistance under the Industry Act, also extending the repayment time on an out-

standing £28m loan originally given to Chrysler in 1963.

Production at Ryton of the Alpine Solara and Horizon models was halted late last year and output of the 309 started at 750 vehicles a week. The 1,400-strong labour force has been increased by 300, largely through transfers from the Stoke plant, ready for output of 1,000 cars a week from next month.

Hope

Depending upon the sales success in Europe of the new car, which is also assembled at Peugeot's Pétay plant in France, Ryton could be called upon to supplement output of left-hand drive vehicles. The hope is that by the summer Ryton could push production close to single shift capacity of around 1,250 cars a week which would create another 200 jobs.

By next year there is the prospect of the introduction of a night shift for the first time for more than a decade and the creation of yet more jobs.

The UK management is seeking support from its French parent to assemble at Ryton a planned new middle-range car, code-named the D-60, which would compete against the Montego and Sierra at the heart of the

fleet sector.

Continued success by Ryton in delivering quality and efficiency will clearly be important to the decision, which is expected this spring. No investment figure has been revealed for the multi-million pound project but assistance is being sought from the British Government.

Another factor which the French parent must take into account is the preference among fleet purchasers to buy British. The issue is becoming more political with the government putting pressure upon both Ford and General Motors to source more components from the UK.

Mr Whalen maintains that according to the standard measure applied throughout the motor industry the Ryton-assembled 309 is 60 per cent British. Taken with output from Stoke, which is 95 per cent domestic manufacture, the percentage is much higher, he says.

The UK company, whose domestic market share with imports and locally-assembled cars has slipped to little more than 4 per cent, clearly believes it can achieve greater and more rapid penetration with home-produced vehicles. The present target is to hit 8 per cent by the end of 1988.

The UK subsidiary also lays claim to one of the motor

industry's biggest export deals with the long-running contract to supply kits for assembly in Iran.

The contract has been subject to repeated disruption in recent years because of Iran's foreign exchange problems caused by the war with Iraq and fluctuations in oil prices. Exports to Iran were around \$75m in 1984, against the \$110m of the previous year but are expected to be sustained at the lower level.

Mr Whalen attributed his company's \$13.1m pre-tax losses for the first half of 1985 mainly to lost revenue from Iran. Deliveries were resumed in the second half to give Peugeot Talbot a trading profit, though the company will finish the year in the red.

Mr Whalen maintains that in spite of the uncertainties surrounding the contract with the Iranians it will not affect Peugeot investment in the UK. He says Iran now accounts for less than 20 per cent of turnover and that the Peugeot parent has taken "a fundamental decision" that investment will be based only upon the subsidiary's performance in the UK.

Mr Whalen is looking for further investment and growth for what is the UK's fourth largest car assembler.

A wide choice of structures

Starting a company

RACHEL DAVIES

FINDING THE right solicitor is vital for those wishing to set up business in the UK.

Having crossed that very important hurdle the next step is to decide what form the business is to take.

The multi-millionaire magnate may wish to enter into a "joint venture" with others to operate an oil field; the immigrant of more modest means may seek to carry on his craft as a "sole trader"; professional people contemplating consultancy may think in terms of a partnership.

But far and away the most usual choice is the limited company, registered under the Companies Act (now consolidated in the 1985 Act).

There is no restriction as to the nationality of shareholders, and the limited registered company has two great advantages over other corporate or unincorporated bodies: shareholders' liability is limited to the amount unpaid on their shares, and the company has a legal personality separate from that of its members. That means that it can contract, own property, sue or be sued in its own name, without affecting the personal rights and obligations of its members.

It is therefore the ideal vehicle for anyone who wishes to start business without over-vulnerability while dipping his toe or plunging into the muddy waters of UK commerce. The solicitor will draft a "memorandum of association" setting out the objects of the company, "articles of association" setting out its internal regulations. They will then be filed along with various other documents, including particulars of directors and the company secretary, with the Registrar of Companies. It takes the Registrar about six weeks to make sure that all registration requirements are satisfied, and he then issues a certificate of incorporation.

Shelf company

If the company is private it will be ready to start business straight away. If it is to be a public company, in that it intends raising money by offering shares to the public, it will have to wait longer, because registration requirements are more stringent (for instance it must have a nominal authorised share capital of at least £50,000) and it cannot operate until the Registrar has issued a certificate to do business as well as the certificate of incorporation. An alternative and quicker way to get going is to buy a "shelf company".

These are companies (usually private) which have already been registered and are held in stock by solicitors, accountants and company registration agents. They have a name, a registered office, and

articles and memorandum, and are all set to start business.

The shopper will look for one whose objects more or less suit his purpose. The name may be somewhat startling, but that can be changed while the company operates, as can the registered office and inappropriate clauses in the memorandum or articles.

So, for speed and sometimes for slightly less cost, the shelf company may be the promoter's choice. Formation of the company is the easy part. Once it is ready to trade the difficulties begin.

Many UK businessmen have problems understanding the intricacies of commercial legal requirements, and the foreign promoter of a UK company is unlikely to be in a better position. The company will have to be administered in accordance with the Companies Act, finance may have to be found. Expenses may have to be bought, rented or leased, or even built. Patent searches may have to be carried out or government consents and licences obtained.

Book keeping

A new employer will need to understand the law relating to contracts of employment, maternity leave, redundancy, national insurance, pay-as-you-earn taxation. He will have to keep books in accordance with the law, take out insurance, collect and pay value added tax. Commercial transactions will require an understanding of concepts peculiar to English law. A businessman from a non-English law country may be unfamiliar with the idea of a long lease—or he may not realise that consideration is an essential ingredient of a contract.

From formation onwards the company will need experts—a commercial estate agent perhaps, or an insurance broker, financial adviser, legal adviser, accountant, or patent agent.

The foreign promoter of a UK company would be well-advised to seek out his experts before he embarks on his adventure. And he would be well-advised to get hold of Clifford Turner's *Doing Business in the United Kingdom*, published by Matthew Bender, which, with the utmost clarity, covers every imaginable aspect of UK business law and practice.

If, however, he does not have the time, the know-how or the inclination to make the right contacts, he can get a package deal. He can go to an "international corporate expansionist" (international consultant for short) which will handle anything or everything for him. It will advise him, register his company, apply for planning permissions, licences, regional development grants or whatever, or simply put him in touch with all the right people. The package deal can be invaluable to any company promoter, but it is particularly suitable for someone seeking to operate a vocational line of business who, because of the nature of his profession, is unlikely to have contacts among hard-core men of commerce.

When collieries come to the end of their working lives they inevitably have to close. The National Coal Board, who manage Britain's coal mining industry, are acutely aware of the impact this has on jobs.

Not least because we know that the workforce concerned still has an enormous amount to offer.

That's why we've set up NCB Enterprise, with the aim of creating new job opportunities.

Of course, we don't expect you to start a business in a coalfield for no good reason.

So we've put together a unique package of inducements that include money, premises and a skilled workforce.

When you've finished reading this advertisement, weigh up the pros and cons for yourself. You could well conclude that the coalfields are now Britain's most attractive location for business development.

MONEY UP FRONT

One of our main strengths is that we offer the businessman immediate finance, with favourable rates of interest and few formalities.

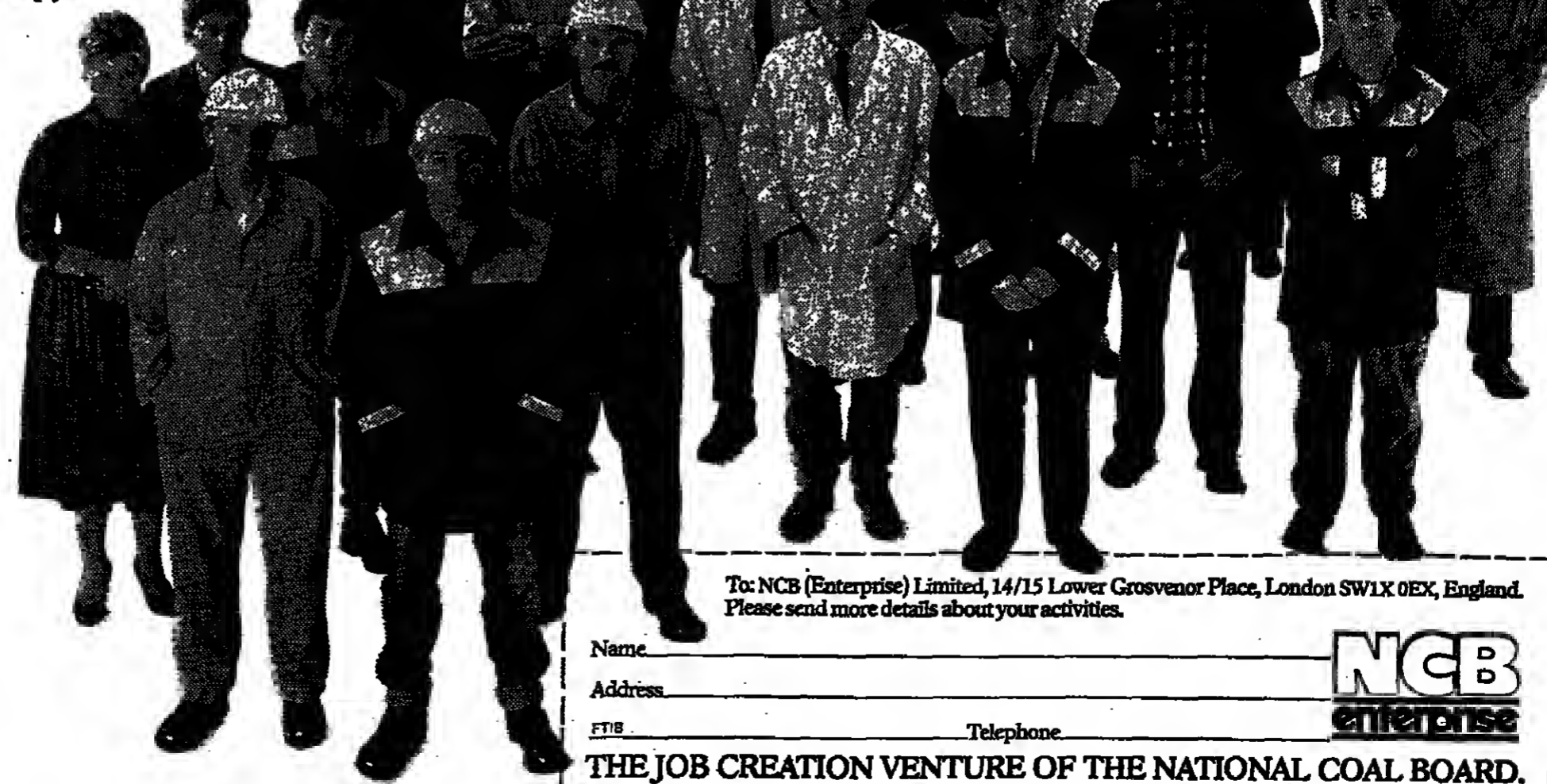
There is no need to invest first and claim later. NCB Enterprise can provide you with money in advance, thereby alleviating cash flow problems in the crucial early days.

Later on, we'll be able to offer you further financial support to help with additional growth and expansion.

To help create permanent new jobs we have £20 million available now — with more promised when needed. And we'll even help seek out the additional grants and loans you may be entitled to from other sources.

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THE JOB CREATION VENTURE OF THE NATIONAL COAL BOARD.

Foreign investments

Investment decisions and associated employment by foreign-owned companies in 1984

Ranking	Country of origin	Number of projects*	Jobs created†	Jobs safeguarded†
1	US	134	16,376	6,851
2	FRG	38	1,158	583
3	Canada	18	600	344
4	Japan	16	1,192	1,167
5	Rest of World	12	433	398
6	Irish Republic	12	201	22
7	Sweden	9	239	149
8	Switzerland	7	155	30
9	Netherlands	5	362	2,539
10	Denmark	5	108	3,238
11	Finland	5	72	139
12	Italy	4	246	—
13	Belgium	4	101	—
14	Hong Kong	3	—	—
15	Norway	3	—	—

Total 285 28,125 17,991

* Investment decisions (including first-time investment, expansion, takeover and joint ventures).

† Estimate of long-term employment associated with the projects; not every decision is accompanied by an employment estimate.

Investing in Britain 16

London flagship essential for major groups

Hotels

ARTHUR SANDLES

FIELDS IN which investment demand exceeds opportunity supply are rare enough these days, but such is the London hotel market. Dozens of international hotel groups would like a London flagship, many are actively seeking one, and those that have such a property are either looking for more or seeking further development in the UK provinces.

Since Hilton arrived in the sixties there has been a stampede for space in the UK capital. In recent years Ryman and Marriott, Novotel and Taj have joined Sheraton and Inter-Continental and Holiday Inn in coming to the city. Hilton, meanwhile, has expanded in London and moved out of the city as has, extensively, Holiday Inn and, more recently, Ramada.

Of course, hotel investments are not as simple as they sound. The management company does not always, or even often, own the fabric of the building and the investors may keep a fairly low profile. Not always, perhaps, as low as they would like. When Regent International Hotels, with Hong Kong and US money, bought the fabric and the management contract for the Dorchester the move was peaceful. When Regent then sold the building, but not the management, to the Sultan of Brunei, the repercussions were considerable.

In London, management companies are frequently willing and sometimes eager to put up some of the long term cash. The reasons for this are not too difficult to trace. Hotels are extremely difficult to find and the deeper you are prepared to dig into your own pocket the more likely you are to find one; at the same time UK investments tend to look fairly secure ones to international hotel groups which often run properties in much less stable economic and political grounds. At the moment London properties are being sought by such

companies as the Air France subsidiary, Meridien, and Holiday Inn, which is already strongly represented but lacks an operation in or near to Mayfair, where the real hotel action is. Both of these will put up their own cash if the opportunity is right.

But is it likely to be? The major hindrance to London development is UK planning procedures, regarded by many foreign investors as too democratic by a long chalk. Local residential objections to further hotel development in such areas as Westminster, Mayfair, Kensington and Chelsea are considerable and central Government has little power to force through something to which a local authority objects (other than "national" projects such as major road systems).

The present UK Government has promised that it will do something to speed up planning procedures, but whether this will mean removing or reducing the present element of local democracy remains to be seen.

In the absence of such changes the prospects for present owners of London properties would seem bright. In 1985 the British capital had the highest full occupancy rate of any city in the world, and the city has been reduced to tears. Historic indications are that almost whatever happens hotel investors can rest secure on their real estate values.

Unfortunately, the cost of entering the UK market, either in London or in the provinces, remains high in comparison with many other countries. Building costs tend to be high, land is pricey, planning procedures in a delay which can lead to interest charges and building regulations and fire precautions are tougher than most hoteliers face elsewhere.

If it were possible to build an hotel in central London the costs would almost certainly exceed £120,000 a room. As a result of this the purchase value of four star and de luxe pro-



The UK hotel market remains lively, with London a key target for international hotel groups. Above: the entrance to Grosvenor House Hotel in London's fashionable Park Lane.

erties is not far short of this level. The sheer cost of new building is one of the major reasons why so many London hotels are bought and refurbished.

The scene changes somewhat in provincial centres and areas around London. Here local authorities are often enthusiastic about hotel development, particularly as the new belief in the service industries as a source of employment spreads, and investors are likely to meet encouragement rather than delays from planning officials. At the same time central Government is eager to ease central London's domination of the tourism market in the UK and is encouraging the British Tourist Authority and others to use their marketing powers to steer visitors to other UK destinations.

Coupled with this is the undoubted demand of the British domestic travelling public, particularly the business travellers, for a somewhat higher standard of accommodation than once might have been provided. Holiday Inn has certainly found a ready market for its products and domestic companies such as the long-established Trusthouse Forte and relatively newcomers like Ladbrooke have struck a profitable vein in provincial urban locations.

There are also signs that further attempts are being made to crack what has long seemed an impenetrable problem in Britain, the provision of new, budget priced, tourist accommodation. THF is experimenting with a series of properties on site it currently uses for its Little Chefs, highway side, family restaurant operations and there are indications that at least two French budget motel operators will be moving

The great British success story

The Arts

ANTHONY THORNCROFT

THIS YEAR the Arts Council, in an attempt to squeeze more money out of the Government for its 1986-87 grant, published a prospectus entitled "The Arts: The Great British Success Story". Few disagreed with its basic thesis that the arts was one area where the UK had been successful in the post-war years.

British actors, playwrights, artists, sculptors, writers have an international reputation; British arts organisations, the National Theatre, the Royal Opera House, the Royal Shakespeare Company, the major orchestras, are assured of large audiences and critical acclaim when they tour abroad. On the surface the arts are in good shape.

But beneath the surface there is seething discontent, a muttering of unrest which links the flagship London-based organisations, like the Royal Opera House and the National Theatre, with the myriad of local arts centres and ethnic performance groups. The cause of this unhappiness is, not surprisingly, money.

According to the Government, the arts have been well treated during its stewardship, with an increase in grant to the Arts Council (the main source of

funds for the performing and visual arts) from £61m in 1979-1980 to £136m, just announced, for 1986-87, a rise in real terms of 7 per cent. But this takes no account of the fact that inflation in the arts, a very labour-intensive industry, has risen higher than basic inflation, and of the policy of the Arts Council to redistribute state aid away from London, and the big national companies based there, and towards the regions. Above all, the arts face a cash crisis because of the abolition of the metropolitan councils from next April 1.

The metropolitan councils have been generous supporters of the arts, in particular the Greater London Council. It has been estimated that the met counties spent over £40m a year on the arts, although some of this was more like social welfare. The Government has only given the Arts Council an extra £25m to make good the disappearance of this tier of government. It believes that the remaining tier, the local authorities, should provide the difference.

Unfortunately many of them could well have limitations placed on their spending power under the rate-capping procedure, and although there may be a willingness to make good the shortfall, the practical ability will be absent. Take Sadler's Wells in London: the GLC gave it around £150,000 this year. In addition it advanced £500,000 towards its

rebuilding policy.

The Arts Council has already announced that it cannot step into the breach in funding this theatre, and others, such as the Liverpool Empire and the Theatre Royal, Newcastle, which were aided by their local met. Can the London borough of Islington afford to take in Sadler's Wells? Undoubtedly in the next few months there will be many stories of theatres and arts organisations threatened with at least temporary closure for lack of cash.

The Arts Council has dipped into its reserves, and held back on its regional expansion policy, by giving its 200-odd direct clients an average increase of 4 per cent for 1986-87. Some will get more, some less, but the big battalions, like the National Theatre and the Royal Opera House, should receive 4 per cent more.

This should enable them to keep in business, although the NT was also greatly helped by the GLC, and unless the Arts Council makes good most of that additional aid the NT may be forced to close its Cottesloe stage again in 1986. But, usual in the arts, cash will probably be found at the last minute to avoid a real crisis.

The Government's response to the complaints of the arts organisations is that they should market themselves more effectively, and get business sponsorship. This has grown from around £800,000 10 years ago to over £20m in 1985 and

there seems more potential yet, but no one envisages corporate sponsors ever replacing the Government as the mainstay of the arts. This could only be achieved if the Government gave generous tax incentives to private and public sponsors. But although the arts might have a real case, and a small rise in government support could bring extra benefits, not least in cutting unemployment, any objective view would suggest a thriving arts scene.

The London commercial theatre is booming (or rather doing better than in the recent past), and theatre attendances nationally, at around 40m, far exceed the crowds for football matches. Concert audiences are buoyant, with the South Bank showing a rise after years of decline, thanks in part to the open foyer policy. Even cinema attendances have started to rise again.

There has been a rush of new theatres opening around the country, most recently in Winchester. Arts centres are popping up everywhere and now introduce 20m people to, if not the more demanding arts, then at least some mind developing experiences. The Arts Council's "Glory of the Garden" strategy has brought the arts to those regions that, in the past, could justifiably feel that they were being starved of culture while London wallowed in abundance.

It is also widely accepted that the regions have a major role to play in a healthy British arts scene. The big four companies - Covent Garden, National Theatre, RSC and the English National Opera - now take a much smaller share of total arts subsidy, and, along with bringing arts to the people by strengthening regional arts associations, the Arts Council has stressed the need for more resources for community and ethnic arts. It also tries to assist the national companies in touring.

This has been towards making the arts available rather than creating the conditions for the individual artist to bloom. But there have been plenty of successes in recent years, made to the benefit of the balance of payments. The arts necessarily contain many argumentative and vocal people keen to complain about Government failings, real and imaginary. But somehow the arts continue to flourish; perhaps a little more generosity by the Government could sustain what is undoubtedly a golden age well into the future.

Company service from cradle to maturity

Accountants

CATHERINE HARDY

THE range of services offered by accountants in the UK has grown rapidly, as the pressure on fees and the recession of the early 1980s limited the scope for expansion of traditional audit work.

Mr Nigel Moore of Ernst & Whinney explains, "The opportunity was seen for extending services to client companies, and because an understanding of business is built up during audit work, and as accountants saw the client need for, say, consulting, it made sense to have specialists in-house."

Indeed the Big Eight accountancy firms in Britain employ a whole range of experts. Price

Waterhouse is the only Big Eight firm in the UK with more accountants than non-accountants on its staff.

Coopers and Lybrand has concentrated on growth in consulting and nearly a quarter of its fees come from this still rapidly-growing area, while 20 per cent comes from merger and small business work.

Mr George Westropp at Touche Ross - currently at number seven in the UK in terms of fee income - gives some examples of the extensive literature produced by accountants to show just how well equipped they are to help anyone considering investment in Britain.

To begin with Mr Westropp says "We produce a whole range of publications." For example, "Setting up in the UK for Japanese business" is a recent addition to the list.

The publication is presented in both Japanese and English and applies Mr Westropp says, "wherever you come from - whether it is Norway or Singapore. It covers everything you need to know."

"Tax and Investment Profile," from Touche Ross, goes into the business and fiscal details that an incoming investor needs, from the basics of company formation to how to patent a product in the UK.

Mr Nigel Moore agrees that accountants "can offer very much a comprehensive service - a cradle to maturity service." He explains: "We can advise on forming a company, the problems of, for example, VAT registration and PAYE. We can set up books and records, suggest a bank to go to, and premises and even staff." At Coopers & Lybrand, Mr Peter Howes claims: "We have

built-up enormous expertise in trying to interpret investment laws and are well-qualified to advise, whether on investment for, say, manufacturing, or a service industry like tourism."

An accountant's specialist knowledge of particular sectors can prove vital. "We pride ourselves on our ability to construct multi-disciplinary teams to advise people. This involves experts in whatever fields are required," he says.

Meanwhile, Mr Westropp states that Touche Ross can offer very specific services. If a construction company in Canada wants to set up here, they would be advised by an expert in the British construction industry," he says. The service can also be specific to individuals. Before now, he has even found a client a hotel to stay in during their visit to Britain.

Like most people, Colin Welland prefers gas for home heating. But, like many people, he didn't realise that gas provides getting on for sixty per cent of all the heat used in British homes. Nor did he know that it's the most widely used heat source in industry, or that this domestic and industrial demand brings many benefits to Britain. Benefits like jobs for British workers.

For example, the gas people's own giant Morecambe Field, offshore from Blackpool, is being developed at a cost of more than one-and-a-half billion pounds. The major part of this massive investment is being spent with British firms, which has led to the creation of literally thousands of jobs for British workers. So, in a very real sense, Britain benefits because people prefer gas. Ask Colin Welland!

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